

# BTI 2016 | Moldova Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>6.24</b>	# 47 of 129	
Political Transformation	1-10	6.70	# 40 of 129	➔
Economic Transformation	1-10	5.79	# 60 of 129	➔
<b>Management Index</b>	1-10	<b>5.31</b>	# 56 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	3.6	HDI	0.663	GDP p.c., PPP \$	4982.6
Pop. growth <sup>1</sup>	% p.a.	-0.1	HDI rank of 187	114	Gini Index	28.5
Life expectancy	years	68.8	UN Education Index	0.653	Poverty <sup>3</sup>	% 2.0
Urban population	%	44.9	Gender inequality <sup>2</sup>	0.302	Aid per capita \$	105.2

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

The last two years have been partly rewarding for Moldova, as some of the processes initiated at the beginning of the government formed by the Alliance for European Integration were successfully completed. The implementation of reforms allowed visa liberalization with the EU and the Association Agreement was signed. This Agreement includes the Deep and Comprehensive Free Trade Area with the EU, meant to diversify exports and improve the legal framework for a market economy. At the same time, despite some attempts, Moldova has failed to address systemic problems obstructing the implementation of key reforms. These problems mainly involve the rent-seeking interests of politicians, corrupt judges, and the increasing influence of tycoons on the decision-making process. All of these have led to the inability of the ruling coalition to reform the office of the prosecutor, and to prevent hostile takeovers of shares in banks and companies and opaque deals with state assets. At the same time, the unresolved Transnistrian conflict poses additional challenges for the pace of reforms in Moldova.

After the recovery from economic crisis, Moldova managed to demonstrate accelerated GDP growth in 2013 and 2014. However, the cause of this growth was not market reforms but the rather good climatic conditions that led to an increase of agricultural output. The significant reduction of the poverty rate ahead of schedule is an evident success. However, the role of state in achieving progress in this area is minimal because, in most cases, it is the remittances of labor migrants that have helped overcome economic hardship. At the same time, the imbalance between the urban and rural is striking, with no noticeable improvements so far. The crisis in Ukraine, the weak performance of the Russian economy and the devaluation of the Russian ruble are also placing additional pressure on the Moldovan economy, given its high exposure to external risks.

The polarization of society has continued, but is more focused on the strategic movement of Moldova rather than on identity issues as in the past. The duality between the supporters of association with the EU and the integration into the Russia-led Eurasian Economic Union (EEU) has caused tensions in society and marked the parliamentary elections. However, politicians have

managed to avoid direct violent conflicts, despite lack of confidence between each other. The trust of the public in state institutions has also remained low. The entanglement of politicians with the economy, the inability to implement anti-corruption reforms properly, and the lack of proper investigation into corruption cases involving politicians at the highest levels has been a source of disappointment for citizens and among civil society. As such, society's commitment to democracy and a market economy is still not well rooted, as it lacks trust in the politicians associated with democracy.

## History and Characteristics of Transformation

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

Negotiations with the Transnistrian side have been largely unproductive so far. Various attempts by Russia, the European Union and the Organization for Security and Cooperation in Europe (OSCE) to implement a settlement of the conflict have all failed. It was only in June 2011 that negotiations resumed in the 5+2 format, after having been suspended for six years, but were again postponed in 2014. The 5+2 format brings together in the negotiation process the opposing sides, mediators, guarantors and observers, in this case the Republic of Moldova, Transnistria, the Russian Federation, Ukraine, the OSCE, the United States and the European Union. Since then, various formal and informal meetings between Moldova and the Transnistrian side have been conducted. Although confidence-building measures, such as resuming railway service between the two areas, can be counted as incremental successes, there have also been considerable setbacks and provocations. The reasonably free and fair election in December 2011 of the young reformer and representative of the Transnistrian business elite, Evgheni Șevciuk, to the helm of the unrecognized state gave the negotiation process a new dynamic. Șevciuk's ability to remove controversial members of the conservative old guard from crucial posts in the Tiraspol government and replace them with pragmatic and professional negotiators led to a thawing between the two sides. Tangible results remain to be seen. It is also unlikely that any agreement could be reached without the explicit blessing of Russia, who is a de facto sponsor of the regime.

Ideological debates on nationhood and statehood absorbed almost all political energies in Moldova until early 1994 and, sporadically, even later. These debates have polarized the population and led to the postponement of economic reforms. The dominance of such issues in public debate facilitated the emergence of a populist political elite that lacked the proper managerial skills to conduct much-needed reforms and focused instead on their own personal enrichment. Furthermore, the territorial secession of the Transnistrian region drew political attention and managerial resources away from reforms. The massive support of the regime in Tiraspol by conservative circles in Russia increased Russia's ability to exercise pressure on Moldova and hindered the flow of foreign investment into the Moldovan economy. Due to the absence of natural resources or competitive agricultural and industrial products for Western markets, Moldova is highly dependent on Russian markets and energy resources. However, the dependence on Russia is slowly decreasing given the signing of the Association Agreement with the EU and the creation of the Deep and Comprehensive Free Trade Area that redirects exports to the European market. The general economic malaise and ongoing distrust of the political establishment continue to strengthen the conservative and populist camp, currently divided into two parties – the Party of Socialists - which is the largest party in the parliament and in strong opposition to the current coalition, and the Party of Communists, which plays the role of constructive opposition.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

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

Monopoly on the  
use of force

5

A series of armed clashes from 1991 to 1992 produced two weak states with enclaves for criminal formations that are beyond the state's reach. Over the 23 years of negotiations, no progress has been achieved in restoring Moldova's control of the breakaway region. At the same time, tension in the region has increased since the outbreak of war in Ukraine, and the 2014 negotiations in the 5+2 format have been postponed three times. In February 2014, the mostly Russian-speaking autonomous territorial unit of Gagauzia voted overwhelmingly against closer EU integration, preferring closer relations with the Eurasian Economic Union (EEU). This caused tensions with the central authorities, which deemed the referendum and its results illegal. Gagauzia already enjoys a wide degree of autonomy that includes the right of secession, should Moldova lose its sovereignty. Both Gagauzia and the PMR are connected by their loyalty to Russia, while the central government favors EU integration. Given the current conflictual relationship between Russia and the EU, such diverging orientations could have quite a negative effect on Moldova's future state cohesion and integrity.

Civic and ethnic-based definitions of the Moldovan nation-state are in competition with each other in Moldova, although many Moldovans are unaware of the implicit contradiction this involves. The PMR, which does not recognize the Moldovan constitution, champions its own concept of the nation that gives preference to state ideology favoring the subordination of the respective national identity under the common banner of the Russian culture and language. The strong trend in recent years among Moldovans to apply for a Romanian passport is no longer related to a rejection of the very concept of a Moldovan state, but rather has a pragmatic rationale linked to Romania's EU accession and thus the ability to travel freely with a Romanian passport. The trend for applying for Romanian citizenship is believed to have decreased since the beginning of April 2014, when Moldovan citizens were also permitted to travel to the EU without a visa. Despite this, Moldovan citizens who acquired Romanian citizenship are becoming more interested in the Romanian state, increasing their participation in Romanian elections as demonstrated in Romania's presidential elections in 2014.

State identity  
8

Some of the smaller parties outside the parliament (and to some extent Ghimpu's Liberals in parliament) used to reject Moldova's separateness as a nation. However, they have come around to accepting the permanence of the Moldovan state, despite their insistence on the Romanian character of the Moldovan nation, embodied in the concept "two states – one nation." Both in the PMR and Moldova, a certain amount of propaganda for an ethnic-based concept of the nation (Russian patriotism and ethnic Moldovanism, respectively) demonstrates the current strained political situation. The outcome of the 2014 elections shows that the parties rejecting Moldova as a state have remained marginal.

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

No interference of  
religious dogmas  
9

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

It remains common practice that religious figures try to play an active role in the electoral campaigns by favoring politicians who serve their interests.

The state's administrative structure throughout the country is organized on three levels – national, regional (rayon) and local. With the exception of the left-bank territories, where the PMR regime has produced its own fully fledged administrative system, the administrations have competences in many policy fields and executive attributions. Since the 2000s, the Moldovan government has initiated a series of reforms in the administration and decentralization, but the results have been mixed. In 2013, the Law on Local Public Finances was adopted. In 2014, it was implemented as a pilot project in 4 constituencies and, as of 1 January 2015, it was implemented across the entire country. According to the law, villages and towns retain 75% of the income from taxes on citizens' revenues, with counties retaining 25% and municipalities 50%. In addition, the new law changed the transfer system to local authorities, enabling them to decide expenditure priorities for themselves. The government's ability to collect taxes has not increased in the last 4 years and remains at around 18% of GDP (World Bank 2012).

Basic  
administration  
7

In terms of basic infrastructure, the reality is still grim. Although access to sanitation is 87% and access to water source is 97% according to World Bank data of 2012, the quality of these services remains substandard in many cases. Healthcare at the local level is also an issue, given the lack of funds and personnel.

## 2 | Political Participation

Elections for the central parliament and local assemblies are held regularly with a secret ballot and universal suffrage. A wide choice of political alternatives is ensured and political posts are filled according to the election outcome.

Free and fair  
elections  
6

Parliamentary elections in late 2014 were marked by the country's division between integration into the European Union versus integration into the Eurasian Economic Union (EEU). Although the International Election Observation Mission concluded that the elections were free and partially fair, the deregistration – a few days before election day - of the Patria party, led by the controversial business man Renato Usatai, raised many questions, not only from the Russian Ministry of Foreign Affairs, but also from the EU Delegation in Moldova and the U.S. Embassy. The deregistration, proposed by the Central Electoral Commission and approved by the court was on grounds that Patria received MDL 8.1 million (approximately USD 500,000) from abroad, which is forbidden by Moldovan law. Although few questioned the grounds of this deregistration, serious critique was levelled with respect to the timing and the circumstances of the decision, noting that the decision was partly political. In addition, a report on election monitoring from an independent NGO (Promo Lex) showed that two other important parties – the Liberal Democratic Party and the

Democratic Party – did not declare sizable amounts of money from abroad either. In the end, five parties entered the new parliament: the Party of Socialists (20.51%); the Liberal Democratic Party (20.16%); the Party of Communists (17.48%); the Democratic Party of Moldova (15.80%) and the Liberal Party (9.67%).

Although some changes in election legislation took place in 2013 (the election system was changed from proportional to mixed), these were reversed within weeks, as they were actually a trade-off between the parliamentary parties in the course of reshuffling the governing alliance. The only change from the elections in 2010 was that the threshold for individual parties was increased to 6% from 4%; for blocks of two parties to 9% from 6%; and for blocks of three parties and more to 12% from 9%.

All contestants enjoyed unimpeded access and media coverage. However, most outlets were subject to political interference. During the election campaign, the Broadcasting Coordination Council issued warnings and fines to a range of media outlets for impartial coverage.

The elections administration enjoyed confidence and the overall “process was generally well administrated,” as ODIHR noticed, “with the exception of the functioning of the new electronic system for the processing of voters on election day.” This only partially affected the voting process. However, voting by labor migrants in the Russian Federation was seriously hampered by a lack of preparation, such as insufficient numbers of ballot boxes and polling stations. As a result, many voters were denied their voting rights (and were expected to vote for the opposition Party of Socialists).

Democratically elected political representatives have considerable power to govern. The state may lack the resources to implement a full set of policies, but its basic power to govern is well-established. Unfortunately, despite the fact that the ruling alliance is officially committed to separating business from politics, people with vested interests abuse their political office quite often. Although no serious cases of breaching procedures have been recorded, cases of taking decisions in the interest of a certain person or group of people are quite common. It is widely believed that the scandals around Banca de Economii and Chisinau Airport, involving alleged corruption, were politically driven. However, the investigation has not come to an end yet and nobody has been convicted.

Effective power to govern

6

Freedom of association and assembly rights are generally respected. Overall, according to monitoring by Promo-LEX, the situation for exercising the right to freedom of assembly improved in 2012-2013 compared with previous years. This is explained by the familiarization of the population and authorities with the new requirements of the law amended in 2008. Although governments viewed the 2008 amendments as too permissive, those amendments served to guarantee constitutional provisions and contributed to the development of varied public opinions.

Association /  
assembly rights  
8

Following the April 2009 protests, the authorities became more cautious of breaking up assemblies. However, due to the impunity and inaction of police officers, some counter-manifestations escalated, affecting the safety of participants in peaceful assemblies. One particular aspect of note is the legal nihilism demonstrated by some local public authorities in their adoption of decisions interdicting certain types of assemblies, especially in the case of the LGBT community. Such decisions were adopted due to the discriminatory and aggressive attitude of some representatives of religious groups, who lobbied for restricting the rights of LGBT individuals.

In the reporting period, freedom of association remained stable but the expected legislative amendments to encourage the incorporation of new associations and the development of the non-governmental sector were not passed.

Freedom of expression is largely respected and is guaranteed by the constitution and legislation. According to the World Press Freedom Index, Moldova is experiencing a trend of stagnation, being ranked 56th out of 180 countries in 2014, compared to 55th in 2013. Stagnation or worsening of freedom of expression could occur in the coming years, given the increasing trend of wealthy oligarchs influencing media in the service of their vested interests, leading to self-censoring of the media outlets according to the interests of their owners. Despite good progress over the last few years in reforms aimed at improving freedom of expression, most initiatives were put on hold in the 2013-2014 period. For instance, the law on media ownership to make the media environment more transparent by disclosing “shadow owners,” as well as increasing the opportunities for media decentralization (although the draft has to be improved), was not adopted in the final reading in the parliament. A growing media empire is being built by Vlad Plahotniuc and Vlad Filat, both controversial politicians and businessmen who are also the main power brokers in the ruling alliance.

Freedom of  
expression  
7

A positive development in 2013 was the supplementation of the Criminal Code with Article 180 (1) Deliberate Obstruction of Media Activities or Intimidation for Criticism, and Article 180 (2) Censorship. This amendment established fines of between 150 and 1,000 conventional units, with or without the deprivation of the right to certain public offices, for the intimidation by criticism, obstruction of media outlets’ and journalists’ activity, and censorship and unjustified distortion of journalistic materials. These amendments, derived from the Law on Freedom of Expression, are an indispensable mechanism for guaranteeing freedom of expression

and protecting against censorship. However, their effectiveness is challenged by the fact that most media outlets belonging to individuals with vested interests practice self-censorship.

### 3 | Rule of Law

Being a parliamentary republic, the legislative power is strong in Moldova. Although the parliament is supposed to play the most important role, this is not always the case. The influence of each power still depends, to a certain degree, on the political figure at the helm of the state and the support he enjoys. For instance, when Vladimir Voronin was president, it was de facto the presidency and, to some extent, the judiciary that decided the policies that needed to be adopted both by the government and the parliament. Today, President Nicolae Timofti, who was elected as a result of a compromise to overcome political crisis, has very limited influence. The judiciary plays an important role but is still liable to control from political leaders. According to a 2013 report of the International Commission of Jurists and the Moldovan Soros Foundation, Moldova has inherited the Soviet tradition of judicial subordination to the executive power. Further efforts are still required to guarantee judicial independence in practice. Although the system of checks and balances has improved since 2009, the overall system remains deficient.

Separation of powers

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Along with the fight against corruption, the reform of the judiciary and the establishment of an independent judiciary have become central elements of reforms declared by the governing coalition. A new impetus to the process of reform was given by the adoption of a reform strategy for the judiciary, broadly aimed at reforming its organization, procedures and the prosecution service. De facto implementation started in 2012 with the approval of the action plan. Since its creation in 2007, the National Institute of Justice has been a center for the initial and continuing training of candidates for judges and prosecutors, as well as the professional training of judges, prosecutors and other employees in the justice sector. The major problem in reforming the justice system remains the under-reformed prosecutor's office, which broadly inherited the Soviet system, meaning that it is largely politically controlled. In 2013, a working group presented the concept for a reform of the prosecutor's office, which was adopted by the parliament in summer of 2014. However, the draft law that was prepared was not examined by the parliament. The main problem in delaying the reform of the prosecutor's office seems to be lack of political will and the fact that the general prosecutor is still named as a result of a political agreement and is therefore not depoliticized.

Independent judiciary

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Some positive developments in ensuring an independent justice system and fighting corruption in the judiciary have taken place. In 2014, at the request of the parliament, the government amended the existent legislation to allow the criminal prosecution of judges to be initiated (although only with the consent of the General Prosecutor) in

cases where judges are suspected of committing acts of passive corruption, trafficking influence, money laundering and illicit enrichment. Nevertheless, the Supreme Court of Justice contested the decision in the Constitutional Court, arguing that the new amendments affect the independence of the judiciary. This shows the strong internal opposition to reform of the judiciary. To ensure the independence of judges, their salaries were increased by 100% in 2013-2014. In 2015-2016, a further increase is expected.

Office abuse happens quite often in Moldova, however, legal prosecution and court convictions are rare for public servants and almost nonexistent for high-ranking politicians. Several cases of prosecution of high-ranking officials, including ministers, are being carried out by the National Anti-Corruption Center, but as most of them belong to the political groups of the ruling coalition, expectations of convictions are very low. However, in January 2015, the former minister of interior who was in office during the violent crackdown on protesters in April 2009 was sentenced to four years in prison, having been found guilty of misconduct that led to the death of a person. Another telling example is the imbalance in convictions, allegedly caused by corruption and political influence. In 2014, a judge was sentenced to three years of imprisonment with a conditional suspension of his sentence for legalizing a hostile takeover of 27.5% of the shares from one of the biggest banks in Moldova. At the same time, another judge was sentenced to seven years in prison without suspension for accepting a bribe of \$200.

Prosecution of  
office abuse  
6

The Republic of Moldova is committed to ensuring respect for civil rights and applying an efficient mechanism of implementation. The European Court of Human Rights (ECHR) continued to issue judgments in 2012-2013 for violations of human rights in Moldova, including violation of Article 2 of the ECHR – the right to life. With respect to cases of death, the ECHR criticized in its judgments the manner in which investigations are conducted, the length of these investigations, bad practices of the frequent reopening of criminal proceedings, and ineffective and unilateral investigation by the authorities. In four other judgments, the ECHR condemned the Republic of Moldova for ineffective investigation of cases of ill-treatment, allegations of rape and maltreatment of suspects. According to a report of the NGO Promo-LEX, in 2012-2013, 1,689 complaints of torture and ill-treatment were filed, usually because of inhuman, humiliating and degrading methods used by the police. Nevertheless, no police officer has been sentenced to imprisonment.

Civil rights  
7

Some amendments to the legislation have been made which define torture as a serious crime and which provide that every complaint on torture has to be reviewed within 15 days. Although there are still many cases of torture, ill-treatment, bad conditions for detention, etc., the situation has slightly improved over the last two years.

Discrimination is forbidden by law and, according to the NGO Civil Rights Defenders, the new legislation and policies have strengthened protection against discrimination. However, discrimination still takes place.

#### 4 | Stability of Democratic Institutions

The efficiency of democratic institutions in Moldova is often challenged by frictions between different political groups. These frictions are transferred to the level of state institutions and affect the performance of democratic institutions. Overall, among the many institutional conflicts, three of them seem of major importance. The first involves a conflict between the government and parliament in which the government often holds a different position relative to the parliament. The conflict between the presidency and the judiciary, due to the fact that the president seems to be very focused on reform of the justice system and on the promotion of judges. In addition, the conflict between the National Anti-Corruption Center and the Ministry of Interior bears particular mention. Although these conflicts are between political players and interest groups, personal animosities commonly spill over to institutions and potentially limit their efficiency.

Performance of democratic institutions

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In the short history of Moldova, there has been an overall commitment to democratic institutions, despite differing degrees of devotion with regard to respecting the rules. Although some political players have the propensity to violate the democratic procedure, so far the system has kept the process within a democratic framework. In the 2013-2014 period, no veto-players stepped in, and the potential for this is low. The army has neither the intention nor the capacity to undermine democratic institutions. Although the church is willing to play a more active role in shaping some policies, it cannot be considered a veto power.

Commitment to democratic institutions

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#### 5 | Political and Social Integration

The proportional electoral system has encouraged the creation of a strong party system. However, the lack of tradition in party democracy has proven to be a key problem in establishing a truly representative party system. Most parties are established around leaders and very few parties have survived the transition from one leader to another. Democracy within the parties is not a common element of party life in Moldova and important political figures in parties quite often leave because of democracy deficits within the party or conflicts with the party leader. In recent years, this has been the case mainly within the Liberal Democratic Party, the Liberal Party and the Party of Communists.

Party system

6

As the law on public funding of political parties was not adopted in the final reading, the survival of parties greatly depends on funds that are usually provided by the local tycoons. In some cases, suspicions over external funding exist. As such, the parties often defend the interests of their sponsor and the connection to ordinary members or representation of different groups of society is quite weak.

The increasing division of parties in Moldova is broadly geopolitical as most parties are divided into pro-European and pro-Russian sides, reflecting the identity division within Moldova. Some minor parties still advocate for unification with Romania. Polarization regarding economic and social policies is underdeveloped and does not seem to play an important role during electoral campaigns.

The self-organization of society is not well-developed and is mainly concentrated in the capital, where a group of NGOs and think tanks have some access to decision-makers. Business usually has good connections to decision-makers, but as a rule business leaders' influence is exerted through individual well-connected politicians. State protectionism and paternalism is expected from the government by a major part of the population that still prefers the return to the Soviet system of social protection. Trade unions exist, but have been sidelined after the collapse of the Soviet system. They currently play a weak role in representing workers' interests.

Overall, the parties and movements that reject democracy are marginal and do not enter parliament. All parties and politicians represented in state institutions officially endorse democracy and declare their commitment to democratic procedures. However, there is still disappointment among the population with respect to the performance of democratic institutions and public institutions in general. According to the Barometer of Public Opinion survey conducted by the Institute for Public Policy in 2014, only 26% trust the government, 24% trust the parliament and the presidency, 23% trust the judicial system, and political parties received the lowest ranking of 22%. Among public authorities, the local administration has the highest level of trust with an approval rating of 55%. At the same time, 61% of the population thinks that things in Moldova are heading in the wrong direction and only 17% believes that Moldova is governed by the will of the people.

Political and ethnic polarization have not resulted in major cleavages or societal conflicts. Rural Moldova, in particular, has maintained a moderate tradition of communal self-help, which is a key asset in combating the hardships of transition and subsistence, as demonstrated by the mass influx of cash remittances from Moldovans working abroad. The widening gap between rural and urban Moldova, the resulting migration flows to the cities, and, most of all, the out-migration of up to one-third of the working-age population have together seriously damaged the social fabric and voluntary self-help associations in the villages. As a result, self-help networks are based on personal trust, rather than institutionalized norms and procedures. Therefore, the degree of voluntary and autonomous organization remains low. As

Interest groups

6

Approval of democracy

6

Social capital

6

international practices of self-organization are consolidated in the capital, it is likely that these will expand to rural areas and replace informal networks. A further shift from self-help to NGOs is expected, as social capital is developing in the medium-term.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Exclusion based on ethnicity or religion is very rare in Moldova. Exclusion is largely driven by poverty. The large size of the shadow economy and mass migration have generated social-economic imbalance in Moldova. Due to the size of the shadow economy and the quantity of remittance-based income, especially in the countryside, household incomes are often under-reported. Therefore, statistical data should be treated with caution. In recent years, good progress has been made in reducing poverty. According to the World Bank, the poverty rate of 29.1% in 2005 had decreased to 12.7% by 2013. This is ahead of Moldova's Millennium commitment to reduce the poverty rate to 20% by 2015. Nevertheless, the rural-urban gap has increased compared to previous years, and 77% of people living in poverty reside in rural areas (National Bureau of Statistics). In addition, these people are more vulnerable due to poor access to education and healthcare services.

Socioeconomic  
barriers  
4

The huge dependence on migration causes social problems with more divided families and children that grow up without parents. With a Human Development Index of 0.663 in 2014, Moldova ranks 114th out of 187 countries, placing it below all other European countries. Life expectancy is also among the lowest at 68.9. The Gender Inequality Index for Moldova in 2014 was 0.302, which shows a slight improvement but is still low compared to developed countries such as Slovenia. There are multiple causes for this, but among the most important is the low participation of women in the labor market. Women represent 53% of the economically inactive population. About half have been exposed to various forms of domestic violence since the age of 15 according to 2014 Human Development Report. Moldova's GINI Index of 30.6 is relatively good compared to other countries in the index, despite failing to reflect the disparities between rural and urban levels.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	2988.3	5811.6	7985.3	<b>7944.2</b>
GDP growth	%	7.5	7.1	9.4	<b>4.6</b>
Inflation (CPI)	%	11.8	7.4	4.6	<b>5.1</b>
Unemployment	%	7.3	7.4	5.1	-
Foreign direct investment	% of GDP	6.4	3.6	3.1	<b>4.4</b>
Export growth	%	18.5	13.7	9.6	<b>1.1</b>
Import growth	%	24.6	14.3	4.4	<b>0.4</b>
Current account balance	\$ M	-225.8	-437.4	-398.6	<b>-639.2</b>
Public debt	% of GDP	35.9	26.9	23.8	<b>31.5</b>
External debt	\$ M	2219.3	4836.8	6613.0	-
Total debt service	\$ M	255.1	396.8	674.4	-
Cash surplus or deficit	% of GDP	1.8	-2.6	-	-
Tax revenue	% of GDP	18.5	18.2	-	-
Government consumption	% of GDP	15.7	23.9	20.2	<b>20.4</b>
Public expnd. on education	% of GDP	7.2	9.1	-	-
Public expnd. on health	% of GDP	4.2	5.3	5.4	-
R&D expenditure	% of GDP	0.40	0.44	-	-
Military expenditure	% of GDP	0.4	0.3	0.3	<b>0.3</b>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Moldova's efforts to increase market-based competition have been enhanced with the negotiation and the subsequent signing of the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. The DCFTA has made Moldova improve many of the current legal provisions concerning free market competition and state aid to some economic sectors, so as to ensure a fair, market-based economy. However, the implementation is still deficient given political interference in the market, raising many questions about equal application of the legislation. Nevertheless, more than half of Moldova's exports are currently directed to EU markets. The national currency (the Moldovan leu) has been fully convertible since its launch and no entry or exit

Market-based  
competition

6

obstacles for products are in place. The importance of administered pricing is apparently low, however in most the areas where the state is the only actor providing services prices are considered higher than their real value. According to National Bureau of Statistics, the informal sector has increased to 28% of the GDP in recent years.

In the World Bank's Doing Business Report 2015, Moldova ranked 63rd, an improvement of 19 places in comparison with the 2014 report, mainly due to positive developments in easing the conditions for starting a business, paying taxes and obtaining a loan.

The entanglement between business and politics, reflected in privileged access to political decision-makers by the business elite, still hampers fair competition. Although investments are formally protected by law, there are cases of arbitrary rulings supported by corrupt judges, impeding the free operation of markets.

With the adoption of the new law on competition in 2011, the legal framework was adjusted to EU requirements. As a result, the National Agency for Protection of Competition was reformed into the Competition Council, which received competences similar to those of institutions in other EU member states. For instance, the Council can sanction companies as well as the employees of the company, and the obstruction of Council activities can lead to fines of up to 1% of the company's turnover. Despite the increased competences and personnel of the Competition Council, the results of its activities have been modest since its creation. The most famous Council decision was levying of fines totaling MDL 1.4 million (~ USD 90,000), applied to five insurance companies for engaging in unfair competition. The biggest criticism of the Council is its failure to oblige petrol companies to reduce prices for petrol products, given the sharp decrease of international market prices. In Romania and Estonia, prices for petrol products have decreased by 30%, while in Moldova they have fallen by only 7%.

Monopolies exist in a limited form compared to other states in the region, given the small market, the absence of natural resources and major industrial assets. Political figures are quite often behind economic activities attempting to monopolize the import of certain goods or control some parts of the market.

There is no state monopoly on trade and most prices are liberalized. The accession of Moldova to the WTO in 2001 has improved the policies and institutions related to trade. Moldova is very open to imports of foreign goods and services and has a fairly liberal trade regime. As of 2013, according to the World Bank, Moldova's exports of goods and services constituted 43.3% of GDP, while imports made up 80.6%. In terms of tariffs, the simple average tariff across all products is 7% (2013) while the trade-weighted average tariff is 3.6% (2012).

Anti-monopoly  
policy

6

Liberalization of  
foreign trade

8

In 2014, changes took place with respect to Moldova's geographical trade orientation. According to the National Bureau of Statistics, in the 3rd quarter of 2014, Moldova exported more to Romania alone than to the Russian Federation: 20% of Moldovan products went to the neighboring country, 47% to the EU, and only 17% went to the Russian Federation, (down from 26% in 2013). The signed DCFTA with the EU and its provisional application as of 1 September 2014 provide Moldova with tax-free exports to EU countries and expand the previous regime of Autonomous Trade Preferences. At the same time, because of the DCFTA, Russia has imposed unilateral import restrictions on wine (since 2013), fruits and meat. Despite the conflict, the Republic of Moldova remains a member of CIS free-trade zone, but has reduced its dependence on Russian markets significantly. Members of the CIS free-trade zone can apply trade-protection measures. Nevertheless, Russia has not provided any argumentation for imposing restrictions on Moldovan products.

The Moldovan banking sector was the focus of attention during 2013-2014, due to some significant changes. Consisting of 14 banks, the sector has proved highly non-transparent in terms of ownership and operations but also with regard to corporate governance.

In 2013, a scandal involving the state-owned Banca de Economii (BEM) shook the system, causing a bank run by minor depositors after the BEM almost collapsed. Mismanagement and corruption had left the bank financially vulnerable and its head was placed under investigation because of illegal loans to companies allegedly connected to politicians. In August 2013, BEM was recapitalized and the state share was reduced to 33.33%. Following this, in April 2014, VEB Kapital, a subsidiary of the Russian state-owned Vneshekonombank, purchased 24.9% of BEM. In November 2014, the state once again became the main shareholder (56%) after a court decision that some of the shareholders had been discriminated against. BEM and two other banks were placed under special administration of the National Bank. According to an IMF report dated December 2014, the National Bank of Moldova (NBM) had to bail out the bank with a loan of MDL 3.3 billion (~ USD 205 million) so that BEM could honor its obligations to private depositors, which represented ~3.5% of Moldova's GDP. The outcome of the investigation into corruption at BEM will be a litmus paper for the banking sector in Moldova as a whole. The NBM managed the crisis well and depositor confidence was restored. This is reflected in the increase in deposits of private individuals by 22.3% in December 2014 compared to the same period in 2013. The share of non-performing loans remained almost at the same level (+0.17%) and reached 11.73% as of December 2014. The banks' capital adequacy ratio was 9.26%.

The government has initiated a series of laws including adjustments to the legal framework on public debt, state guarantees and state lending to the National Bank of Moldova and financial institutions. The laws shall further strengthen the intervention powers of the NBM. Such adjustments were necessary to fight hostile corporate

takeovers of banks. In 2015-2016, Moldova plans to implement the Basel II Agreement and part of Basel III, as well as prudential reporting in compliance with the European Banking Authority's Common Reporting Standards (COREP).

## 8 | Currency and Price Stability

The National Bank of Moldova (NBM) kept the inflation rate at 5.1% in 2013 and at 4.6% in 2014, which is within the corridor of projected inflation. The rise of the annual inflation rate was mainly determined by the higher prices on imported food commodities, resulting from the devaluation of the Moldovan leu (MDL) against the U.S. dollar. Due to the regional crisis resulting from the war in Ukraine and the high depreciation of the Russian ruble, the MDL devaluated significantly, reaching MDL 20.30 per euro in January 2015 compared to 16.1 in January 2013, and MDL 17.41 per USD in January 2015 compared to 12.09 in January 2013. The severe devaluation of the Russian ruble causes problems for Moldova's economy, given the decrease of remittances from Russia. This may also increase the poverty rate in rural areas. The NBM generally tries to maintain a policy of non-intervention, but during 2013-2014 several massive interventions were necessary. In addition, the ability of regulators to take action is constrained by Constitutional Court rulings that reduced the powers of the NBM and limited the independence and effective operation of the National Commission for Financial Markets (NCFM). Legislation restoring the NBM's powers has recently been enacted but the enforcement of regulatory requirements for banks remains weak.

Anti-inflation /  
forex policy

9

Macroeconomic stability in Moldova was maintained during 2013-2014. The IMF reports that, after a process of fiscal consolidation, fiscal discipline deteriorated ahead of the November 2014 parliamentary elections due to increases of wages, pensions and some ad hoc tax benefits. The current account balance improved in 2014 to -\$411 million compared to -\$453 million in 2013. However, the deficit is expected to grow due to an increase in imports and a projected decline in remittances - a major component of the lifeline to the Moldovan economy. Public and publicly guaranteed debt increased to 31.3% of GDP in 2014, up from 29.8% in 2013, and the external debt amounted to 85.8% of GDP. In addition, a sharp decrease of foreign currency reserves in relation to GDP was recorded - from 31.9% in 2013 to 11.4 % in 2014. The macroeconomic situation will likely deteriorate if continuous political infighting threatens what has thus far proven to be a stable economic environment.

Macrostability

6

## 9 | Private Property

Private property in Moldova is protected by law. State intervention is no longer a major concern. While the protection of property rights is structurally assured, the picture is qualified by concerns about the impartiality and independence of Moldova's judiciary. The main problem concerning the protection of private property is related to hostile takeovers ("raider" attacks) that are still prevalent in Moldova. In case of banks, in 2013-2014, the government improved the legislation in this area by making the consent of the NBM compulsory for the acquisition of shares in banks. The threshold for this consent was initially specified as 5% or more of the bank's total shares, then later changed to 1% or more. In addition, a series of sanctions was added, including higher fines, penal prosecution and imprisonment for up to six years. Nevertheless, the issue of intellectual property remains a matter of concern.

Property rights  
7

According to the World Bank's Doing Business Report 2015, the bureaucracy and legal hurdles involved when an entrepreneur starts a business in Moldova are minor, needing 6 days and 5 procedures. With the implementation of the DCFTA, it is expected that the business climate will further improve and that the de facto conditions for the private sector and state companies will become equivalent. Before the negotiation of the DCFTA, Moldova adopted a Law on State Aid and a Law of Competition that are meant to positively change the role of private business in the economy. The privatization process remains an issue as opaque tenders still take place and often involve politicians. Despite the fact that many state-owned companies are not profitable, these are not subjected to privatization and preferential treatment is applied.

Private enterprise  
7

## 10 | Welfare Regime

The system of social assistance and welfare programs practiced in the Soviet Union are still in the living memory of many Moldovan citizens. Since independence, the system has passed through several phases of reform after its total collapse. However, it is still financially weak and of limited effectiveness. An assessment, preparing for a law introduced by the Ministry of Labor, Social Protection and Family in 2012, highlighted the unequal and sometimes fraudulent distribution of welfare. Additional welfare indicators were introduced by the ministry in the methodology in order to ensure the better targeting of assistance, as many people do not report their incomes. The system is still lacking as it does not take into account people suffering from economic hardship that previously had a good income but lost their job. According to a 2012 IMF report, the current pension scheme is moving towards a fiscally sustainable but socially unsustainable system over the medium and long-term.

Social safety nets  
5

An important role in improving social safety nets is played by the remittances of Moldovan migrants, which are essential, especially in rural areas given that remittances are the only source of income for many families. Thus, the poverty rate and welfare of many families depend on the volatility of incomes from abroad.

Moldova places no formal hindrances to accessing education and social assistance for women, ethnic minorities or religious minorities. Deficiencies with respect to education have been recorded in rural areas among socially vulnerable families. With the adoption of the Law on Equal Opportunities in 2012, the legal framework for fighting discrimination has improved and a specialized body – the Anti-discrimination Council – was created. Although the competences of the Council will expand in future, some effects can already be noticed. Since October 2013, nearly 200 people have complained of discrimination. Most people complained about the limited access to public goods and services, justice, education and getting a job. Most complaints are from individuals with special needs.

The representation of women in public office is moderate - at almost 21% for the parliament and a higher percentage for local councils. Female participation in the labor force is equally low - at 38%, according to the World Bank.

Equal opportunity  
6

## 11 | Economic Performance

With a per capita GDP (at PPP) of about \$5,000 and an overall size of almost \$8 billion, the Moldovan economy is one of the weakest and smallest in Europe. Although Moldova witnessed high growth of 9.4% in 2013 - mainly due to a good harvest, growth is estimated to be below 3% in 2014. The year 2015 could be even worse, with a possible contraction given the region's economic deterioration due to the war in Ukraine and the expected decline in remittances due to the crisis in Russia. It is expected that signing the DCFTA with the EU and an increasing reorientation towards EU economies might balance the losses in Russian markets resulting from Russia's trade restrictions. Exports to the EU had already increased in 2014, exceeding 50%, while exports to Russia declined to less than 20% of total exports. At the same time, dependence on Russian energy remained. In 2013, agriculture accounted for only 12.3% of GDP but for about 28.8% of employment. The official unemployment rate remained around 4% over 2013-2014, however the real rate is much higher. Moldova has witnessed a decline in FDI in recent years. Between 2007 and 2008, this accounted for about 12% of GDP, but accounted for only 3.2% of GDP in 2013.

Output strength  
5

## 12 | Sustainability

Moldova is highly dependent on energy imports, mainly from Russia; 95% of total energy supplies and 70% of electricity are imported, and less than 5% of primary energy supply comes from domestic sources. Although the Law on Renewable Energy was adopted in 2007, the absence of a law on green tariffs has halted the development of alternative sources of energy. Instead, Moldova built the Iasi-Ungheni gas interconnector with Romania, which has the potential to diversify gas supplies if a compression station and a pipeline from Ungheni to Chisinau are built. In 2010, a law on energy efficiency and a national plan on energy efficiency were adopted. In addition, a biomass program was developed with the support of development partners. Due to one of the flagship projects (Energy and Biomass), financed by the EU since 2011, about 100 thousand tons of biomass are produced every year in Moldova, reducing CO<sub>2</sub> emissions by 30 thousand tons each year. At the end of 2014, almost 150 public institutions and more than 500 households were heated with biomass. Although the results owe more to the EU project than to the efforts of the government, it should be acknowledged that the creation of the Fund for Energy Efficiency is a step that will reinforce energy efficient practices.

Environmental  
policy  
5

Environmental policy received additional impetus with the signing of the Association Agreement, in which Moldova committed to improve its environmental policy. In the Environmental Performance Index (EPI) of 2014, Moldova ranked 74th, representing a slight improvement of 6.4% over the last ten years.

In the reporting period, Moldova ratified the Protocol on Pollutant Release and Transfer Registers (Kiev Protocol) to the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) of the United Nations Economic Commission for Europe (UNECE). The Protocol aims to “enhance public access to information through the establishment of coherent, nationwide pollutant release and transfer registers (PRTRs).”

In other areas related to the environment, Moldova still achieves only modest results. Soil erosion amounts to 32% of arable lands, while the forest area is only 1/3 of the EU average.

After several years of debate, the Education Code was adopted in 2014, replacing the Education Law of 1995. The Education Code proposes a new approach to education and is aimed at modernizing the education system in the context of European integration and the Bologna Process. Among other objectives, the new document, prepared by the Ministry of Education, aims to promote lifelong education, connect education with the labor market, establish an effective system for the monitoring and evaluation of the quality of education, and develop, support and motivate teachers to

Education policy /  
R&D  
5

ensure quality education. In addition, education for children and pupils with special educational needs will be free at all stages and will be organized in general education institutions, special education institutions or as education at home.

In terms of spending, Moldova has maintained a high rate of financing, ranging between 8 and 9% of GDP. Although the state is making efforts to improve the education system, more students are leaving to EU countries, especially Romania, for secondary and tertiary studies.

Moldova's investment in research and development remained modest, as in previous years, at 0.40% of GDP. As a result of poor investment the area of R&D, the sphere has suffered and demonstrated limited effectiveness. The Education Code has clear provisions on the organization of research in universities, the granting of rights on management, the exploitation of university research results as well as on the compulsory rewarding of authors' intellectual property rights. After the FP7 program of the EU came to an end, Moldova signed and started to implement the Horizon 2020 program of the EU. This is a continuation of the FP7 and represents the integration of Moldovan R&D into the European framework of research and innovation.

## Transformation Management

### I. Level of Difficulty

Structural difficulties in Moldova have not significantly improved in recent years. Some positive trends are evident but the constraints remain serious.

Structural  
constraints

8

Moldova is the poorest country in Europe, with a GDP of \$ 5,091 per capita (PPP) or \$ 2,280 (current prices) according to 2014 IMF data. The precarious economic situation is due to the lack of significant competitive advantages of the Moldovan economy and the workforce as a whole. The recent entry into force of the DCFTA has opened up the EU market for Moldovan products, however, the tradition of selling low-quality goods on the Russian market has not contributed to the reorientation of exports. In addition, the unresolved Transnistrian conflict poses a potential security risk, not only for the local population but also for investors. In addition, strained relations with Russia and over-dependence in some areas cause many structural difficulties. One particular issue is the total dependence on Russian energy supplies. Despite this, energy efficiency in Moldova is quite low and has only recently become a relative priority. Due to the somber economic background, many young professionals and students have left the country for places that offer better opportunities – mostly the EU and U.S., while Russia is still the top destination for labor migration, followed by the EU.

Civil society has developed considerably over the last decade with major support of the international community. In 2014, the number of NGOs increased to 9,315, however, only a small number of these are active. The sustainability of civil society is still problematic, as more than 80% of funding for NGOs comes from abroad, despite efforts to increase local funding. A law that that would allow citizens to redirect 2% of their income tax payments to an NGO of their choice failed to pass parliament.

Civil society  
traditions

6

Although the political culture in Moldova offers little room for civil society, the participation of NGOs and experts in decision-making is increasing. There are several formats that are designed to convey civil society positions to the government, such as the National Participation Council, which holds regular meetings with officials and participates in the meetings of the cabinet. According to the Barometer of Public Opinion 2014, trust in NGOs is at 25%, which is almost the same as for some public

institutions, however, the negative rating for NGOs is moderate (41%) compared the negative rating for political parties (74%).

The conflicts in Moldovan society largely result from historical legacies. Political parties reflect to a great extent the existing cleavages around identity issues. About 10% of the population rejects the existence of a separate Moldovan identity and sees the Moldovan state as a transitory entity on the way to reunification with Romania. Nevertheless, most of the population accepts the Moldovan state from a political perspective, either with a Moldovan or Romanian cultural identity.

More recently, polarization over the strategic orientation of Moldova has increased significantly, especially given the increasing tensions between Russia and the European Union and Moldova's signing of the Association Agreement with the EU. As the number of supporters of the integration into the EU and the integration into the Russian-led EEU is largely the same, Moldova's strategic choice is at stake. This particularly affects the autonomous region of Gagauzia, which has become a lever of Russian influence.

The Transnistrian conflict that began in the beginning of 1990s remains a source of tensions. On a day-to-day basis, relations between the people on both sides are good and there are no major dividing lines, other than political sympathies.

Violence is widely excluded and there are no religious conflicts that could lead to hostilities within society. The only religious competition with a political background is the one between the Metropolitan Church of Moldova, subordinated to the Russian Patriarchate, and the Metropolitan Church of Bessarabia, subordinated to the Romanian Patriarchate.

Conflict intensity

4

## II. Management Performance

### 14 | Steering Capability

After the collapse of the Soviet Union, governments in Moldova often oscillated in strategic priorities which generated various crises. For about the last ten years, the overall strategic priority has been EU integration. As part of the association process with the EU, issues such as reform of the judiciary, fighting corruption, reform of the law-enforcement agencies, improvement of competition, and decentralization have become priorities. Judging by the results achieved during the implementation process, many of the priorities are mainly declaratory due to insufficient political will and lack of resources, despite regular reform attempts by different stakeholders.

Question  
Score

Prioritization

4

Maintaining priorities, however, has proved much more difficult than defining and declaring priorities in public. The governing coalition is in a permanent process of competition of interests and keeping priorities on the list is a matter of consensus within the coalition. As high corruption, cronyism, and vested interests are still commonplace in politics, many priorities are downgraded. For example, the reform of the prosecutor's office was a priority during the second mandate of the Party of Communists and has been top priority for the pro-European government, in place since 2009. Despite this, serious steps to reform the prosecutor's office have not been undertaken.

Multilateral, long-term priorities are also set by a national development strategy, developed with the support of the international community and experts in various areas. When the new government came to power, it took over the previous National Development Strategy for 2008-2011, but also added a new development strategy, Moldova 2020, which determines the priorities to be achieved by 2020.

The capacity to implement priorities has generally improved over the last four years, given the greater commitment of the government and increased assistance from the development partners. However, a number of issues challenge the implementation process. The primacy of rent-seeking interests of politicians in many areas undermines the process of implementation. Priorities that involve less political interests are usually easily implemented. For instance, in the case of the visa liberalization process with the EU, Moldova had to adopt several dozen laws and then implement these under the EU-Moldova Action Plan on Visa Liberalization. The technical laws were adopted more easily, but the laws endangering the power base of the incumbent on issues such as anti-corruption were delayed as long as possible. In addition, some priorities are difficult to maintain as they are not popular and might result in a loss of popular support. That is the case of anti-discrimination law, finally adopted in 2012 amid high pressure after several failed attempts. The example of visa liberalization, which entered into force beginning at the end of April 2014, is a positive illustration of how priorities can be implemented if there is a strong incentive, high public demand and a professional team. Other factors that jeopardize the implementation process relate to the partisan involvement of civil servants, who often come into conflict because of the positions of their leaders.

Implementation  
6

Policy learning has not yet become a norm within Moldovan institutions. Although all institutions regularly present reports of activity, few of these take into account the experience from the past that could result in policy change. The situation seem have improved in recent years, given a more professional civil service, an influx from civil society in some ministries, assistance from development partners, the implementation of new methodology and, to some extent, the contribution of civil society.

Policy learning  
6

The constraints for deeper policy learning are often generated by the lack of resources. Ministries do not have the capacity to produce their own analytical reports

on their activity; in most cases these reports consists of statistics and examples. At the same time, public institutions do not have the resources to commission consultancy and expertise from academics and practitioners. The usual mechanism is in the form of direct contribution by the donors' community or expertise from think tanks and NGOs or contributions from the resources of donors. A positive contribution is also offered through the transfer of practices from EU countries and experts brought to Moldova to assist with policy formulation and learning, however not all of them seem to be well suited to the Moldovan context.

## 15 | Resource Efficiency

Amid a wide reform process defined by the closer cooperation with the EU, the accent on resource efficiency has become more evident in recent years. The influx of young people, including graduates from abroad, has contributed to increasing the value and efficiency of the government administrative personnel. Although political loyalty remains an important criterion for the selection of public servants, this is mainly true for the higher managerial levels, while a class of well-trained state bureaucrats has begun to emerge at the middle-management level. However, despite de jure rules for competitive recruiting and promotion, de facto transfer from middle-management level to high-level positions is often conditioned by political affiliation.

Efficient use of  
assets

6

The Court of Accounts has carried out audits of many institutions and found extensive misuse of resources, however, no serious steps in punishing mismanagement were taken. Leaders and institutions still enjoy a high degree of impunity thanks to political connections and are usually not subject of penal prosecution.

The decentralization process was in preparation for a long time. Since the entry into force of the law on local public finances (pilot) in 2014 and its full implementation as of 2015, local authorities have received greater revenues for local budgets and are also able to independently determine the priorities for spending.

Difficulties in policy coordination are resolved either by the special division of the State Chancellery or by the regular specialized task force on concrete issues. The Division for Strategic Planning, Policies and Aid Coordination is responsible for coordinating ministries, as it monitors the implementation of the National Development Strategy, sectorial strategies and other institutional development programs. The division also prepares, drafts and revises all public policy documents. Together with the Ministry of Finance, it ensures policies are aligned with the Medium Term Expenditures Framework.

Policy  
coordination

6

Coordinating the contribution of the international community would be very helpful in achieving a more efficient policy for many areas, whether the international actors are the IMF, the EU or other specialized international bodies. In addition,

coordination on concrete issues takes place on several levels. For instance, in the area of European integration, the government coordinates its policy through the National Commission for European Integration, which meets several times per year. Yet coordination also takes place at the level of task forces, as was the case, for instance, in negotiating visa liberalization.

Overall, the rules for institutions are clear and provide for a more or less positive environment in finding a common denominator in policy coordination. However, political protection and politicization play very important roles in the real operation of authorities.

Fighting corruption has become a central element in public discourse and in relations with the EU. The current anti-corruption policy and its implementation barely meet people's expectations or the statements of politicians. Under the visa liberalization process with the EU, Moldova committed to enforce its anti-corruption policy and fight corruption in practice. An overall upgrade of the anti-corruption policy was carried out and enforced in some of the institutions involved. However, there was no explicit mention of reforming the prosecutor's office, which is a key institution in the chain of fighting corruption. As a result, it has not been reformed yet, even if the legal framework is prepared for adoption.

Anti-corruption  
policy  
4

A novelty for the Moldovan system of fighting corruption among civil servants and politicians was the creation of the National Commission for Integrity (NCI), which is the body designed to review declarations of assets and incomes as well as to verify potential conflicts of interest. Over the last two years, the NCI has fined a range of public servants, including judges, ministers, MPs, mayors, etc. Nevertheless, the effectiveness of the NCI is only modest, due to the deficient legal framework, insufficient instruments and poor financing.

Under the Group of States against Corruption (GRECO) of the Council of Europe, Moldova has assumed responsibilities for passing legislation on party funding and transparent financing. The law on public party funding has been prepared for many years, but was adopted only in the first reading and there does not appear to be the political will to adopt and implement it in the near future. Party funding remains highly non-transparent and, as a recent report indicates, most of the parties that have entered parliament have spent enormous amounts of undeclared money. The same problematic situation concerns audits of public spending. Despite regular reports of the misuse of funds, no high-ranking officials have been convicted of abuse.

In contrast to the higher level, where no significant results in fighting corruption have been delivered, the results of fighting petty corruption have been a little better. The e-governance tool that allows the provision of public services without direct contact between the public servant and the customer has reduced the possibilities for corruption.

## 16 | Consensus-Building

All the important political players in Moldova agree on democracy and a market economy. However, what is meant by democracy is challenged, given that more forces outside parliament claim that, in order to fight corruption and build an efficient state, Moldova needs to become a dictatorship. For instance, Renato Usatii who leads the Patria party, which was deregistered few days ahead of parliamentary elections (and would have most likely entered the parliament if not deregistered), claimed that Moldova needs a regime like in Belarus and a ruler like Alexander Lukashenko. In addition, opinion polls (the Barometer of Public Opinion 2014) show that Vladimir Putin is the most popular politician in Moldova, indicating that the liberal democratic model is questioned by many citizens. The main cause for questioning the democratic model, even if this is still marginal, is the disappointment in the current ruling elite. This group, associated with democracy, is considered by many to be inefficient.

Consensus on goals  
6

The acceptance of a market economy is widely shared in the political elite and has become stronger since the collapse of Soviet Union, when many political actors still advocated maintaining a planned economy. Over the last decade, however, all major parties, including the Party of Communists, have accepted a market economy, as it seen as the only viable path for economic development. However, the degree of market economy is questioned. Many of the supporters of the integration into the Eurasian Economic Union (EEU) would like to see a stronger role of the state in economic activity.

Moldova has no influential anti-democratic actors. All the parties represented in the parliament agree in principle on democracy, however, at the same time, de facto all parties and their leaders have some tendencies to authoritarianism. The strong competition in elections and the balanced representation in the parliament results in a wider democratic process. The major element delaying the democratization process is the powerful economic actors that promote their interests to the detriment of democracy. The only anti-democratic actor is the Transnistrian regime, based in the eastern regions of Moldova.

Anti-democratic actors  
6

Several cleavages generate regular animosities within Moldovan society that are widely reflected in the party system. The issues of identity, history and the name of the language remain a source of tension, although to a lesser extent than in the 1990s. Moldovan society is still very polarized on the issue of Moldova's strategic alignment (pro EU or pro Russia). The worsening relations between Russia and the EU, and Moscow's assertive position in the region, have placed Moldova in the difficult position of having to choose between the two integration projects. However, despite the failure of the political class to depolarize the issue, it has so far managed to avoid an escalation of conflict beyond the normal channels of political confrontation.

Cleavage / conflict management  
7

The change of the government in 2009 brought many civil society leaders into important positions in government and parliament and also brought about an increased level of openness towards civil society. Dialogue with civil society has improved and institutions like the National Participation Council (NPC) have advanced the influence of civil society by holding regular meetings with high-ranking officials, including the prime minister, and by attending cabinet meetings where the head of the NPC is able to express the opinion of civil society on the issues under discussion. The adoption of the law on transparency in the decision-making process, obliging the authorities to submit their draft initiatives to public scrutiny at least 15 days before adoption, provides an additional opportunity for civil society to influence the process. Recently, an increasing gap between civil society and the government has been observed, given the dissatisfaction of the former with the current progress in reforms.

Civil society  
participation  
7

However, Moldovan civil society still plays a weak role in policy formulation as a result of limited access to state information. Some state institutions and many civil servants still perceive civil society as an actor that should not be involved in the decision-making process; this a reason why the communication between the institutions and civil society is deficient. Overall, civil society has a rather small influence on decision-making, even while its agenda-setting and monitoring capacity is increasing. In addition, the ability of civil society to fulfill its objectives depends to a great extent on its financial viability.

No serious public confrontation about past injustices has taken place in Moldova. The main issue related to conflict in the past is connected to the legacy of the Second World War and the Soviet period. The former communist government (2001-2009) often exploited the issue of Romanian fascism in the period when it was allied with Nazi Germany. However, the rhetoric of the communist government was driven more by internal political reasoning and the intention of improving its relations with Russia than by the aim of achieving justice. A major part of society considers the Soviet period to be an occupation and, in 2012, the parliament of Moldova officially condemned the communist totalitarian regime under the Soviet Union for crimes against humanity, in an attempt to bring about moral justice. The debate about the Soviet past and identity was downgraded by the political class, although many of them use the topics of conflict in the electoral campaign.

Reconciliation  
4

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

## 17 | International Cooperation

The government has defined its top priorities in the National Development Strategy Moldova 2020. The document, adopted in 2012, creates a platform for a results-oriented, comprehensive, partnership-based approach for ensuring qualitative economic development and, implicitly, poverty reduction. External assistance concentrates on the priorities of Moldova 2020, and a specialized department in the State Chancellery carries out coordination of the donors' activity. Most donors coordinate their priorities with the government and have committed to directing their support towards the priorities set by the state. A telling example is road building, to which the Compact Programme from the Millennium Challenge Fund contributed considerably.

Effective use of support

7

With the signing of the Association Agreement, which, broadly speaking, represents an Action Plan for Moldova's modernization in almost all areas, the EU has offered additional funding for its implementation. For instance, the EU has committed to supporting the reform of the justice system with EUR 60 million out of the 124 million needed. In addition, cooperation with the EU takes place through other formats such as TAIEX, Twinning, SIGMA, etc. This cooperation not only offers resources but also ensures the transfer of experience and expertise. The European Union High Level Policy Advice Mission to different central institutions and the European Border Assistance Mission to Moldova and Ukraine are some of the successful cooperation formats.

The overall support of donors has increased the capacity of Moldovan authorities to use their resources efficiently. However, one particular problem is still the misuse of this support. Donors have frozen, withdrawn or cut their support more than once because of corruption or the improper use of funds.

Since 2009, the government of Moldova has expressed a greater commitment to democracy and a market economy and has also become more credible and predictable due to greater openness and reforms. Despite positive dynamics in the first years of the government, 2013 and 2014 revealed that many reforms are cosmetic and that the entanglement between politics and shady economic interests is significant. The corruption scandals, the readiness to change the rules in non-transparent procedures and the inability to push for crucial reforms have provided grounds to question the credibility of Moldova. The international community still credits Moldova with high credibility, given that Moldova has delivered some results compared to the performance of other states in the Eastern Partnership. However, if no new progress is made, the confidence of international partners might be lost. So far, Moldova has made steps to consolidate its credibility but the recent scandals, the weak justice sector and the Transnistrian issue do not position Moldova as a sufficiently stable country.

Credibility

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Moldovan relations with its neighbors Romania and Ukraine have improved significantly. Despite some diverging issues on the agenda, such as the unfinished demarcation of their border, Moldova and Ukraine have managed to develop a strong partnership under the common umbrella of the European integration process. Advanced cooperation has taken place, especially after the regime change in Ukraine and given that both countries have separatist movements supported by Russia on their territories. Kiev and Chisinau have established very close cooperation, including between the leaders of two countries. Romania is a special case, given the common culture and language. Bucharest and Chisinau have managed to develop a strong relationship and transform it very practically by implementing more concrete projects aimed at better connecting Moldova to the European space. There was a certain amount of animosity between some Moldovan and Romanian leaders, given the remarks of the previous Romanian president Traian Basescu regarding reunification. Nevertheless, Romania is the biggest promoter of Moldova in the European Union. Although Moldova has no physical border with Russia, relations between the two are very important for Chisinau, given Russia's capacity to influence Moldovan economy and politics. The relations between the two have worsened over the last two years, given Moldova's determination to sign the Association Agreement with the EU. In 2013, Russia imposed a ban on Moldovan wines and threatened energy price hikes. Once the agreement was signed, Moscow imposed an additional ban on fruits and meat, and introduced protective measures by which Moldovan exporters have to pay taxes, on the grounds that Moldova could be used as a country for the re-export of goods from the EU without paying taxes. Russia's actions are political and no economic arguments were provided to support Moscow's decisions.

Moldova is part of many international and regional organizations, such as the OSCE, the Council of Europe, and CEFTA. The most dynamic format of regional cooperation is the Eastern Partnership, due to Moldova's ambition to integrate into the EU. In addition, Moldova remains a member of the CIS despite little benefits of its presence in Russia-led projects.

Regional  
cooperation  
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## Strategic Outlook

The coming two years will be difficult for Moldova given the internal cleavages and the unfavorable international context. The following challenges stand out:

1. Relations with Russia are particularly salient. This concerns, above all, the neutrality status and the question of joining NATO. Sticking to the neutrality principle would also help re-launch the dialogue with the breakaway region of Transnistria and contribute to mutual understanding with the autonomous region of Gagauzia.
2. Exports need to be oriented towards the European Union. The Russian market has proven politically risky while the entry into force of the free trade area with the EU offers the opportunity to strengthen the resistance to politically motivated trade wars. However, for better access to the EU market, significant efforts in raising product quality are needed.
3. The issue of Moldova's energy dependence needs to be addressed by continuing the project of interconnection with the Romanian/European gas system. In addition, the legal framework and incentives for renewable energy should be provided in order to have a bottom-up process for developing energy capabilities. This would also help decrease Russia's influence in Moldovan politics.
4. Issues related to identity, language and culture that often cause tensions between different ethnic groups need to be treated with care. Keeping these issues out of the political discourse would avoid potential conflicts and would increase the capacity of consensus building for political parties.
5. Corruption is certainly a major impediment to Moldovan economic progress. Reforms need to play a central role. As it is unlikely that Moldovan society will be able to manage this issue alone, EU support and conditionality will be crucial for successful reforms. An EU law enforcement mission could be considered for faster implementation. Anti-corruption measures should also involve public funding for political parties and reform of the National Commission of Integrity, giving additional competences.
6. In this regard, competition regulations need to be enforced and legislation improved that would make hostile takeovers of banks and companies impossible. This would help bring more investors and raise the credibility of Moldova as a country.
7. Finally, the Association Agreement with the EU has met with much resistance. This needs to be popularized within Moldovan society - as a tool for modernizing the economy and state, able to increase the welfare of Moldovan citizens.