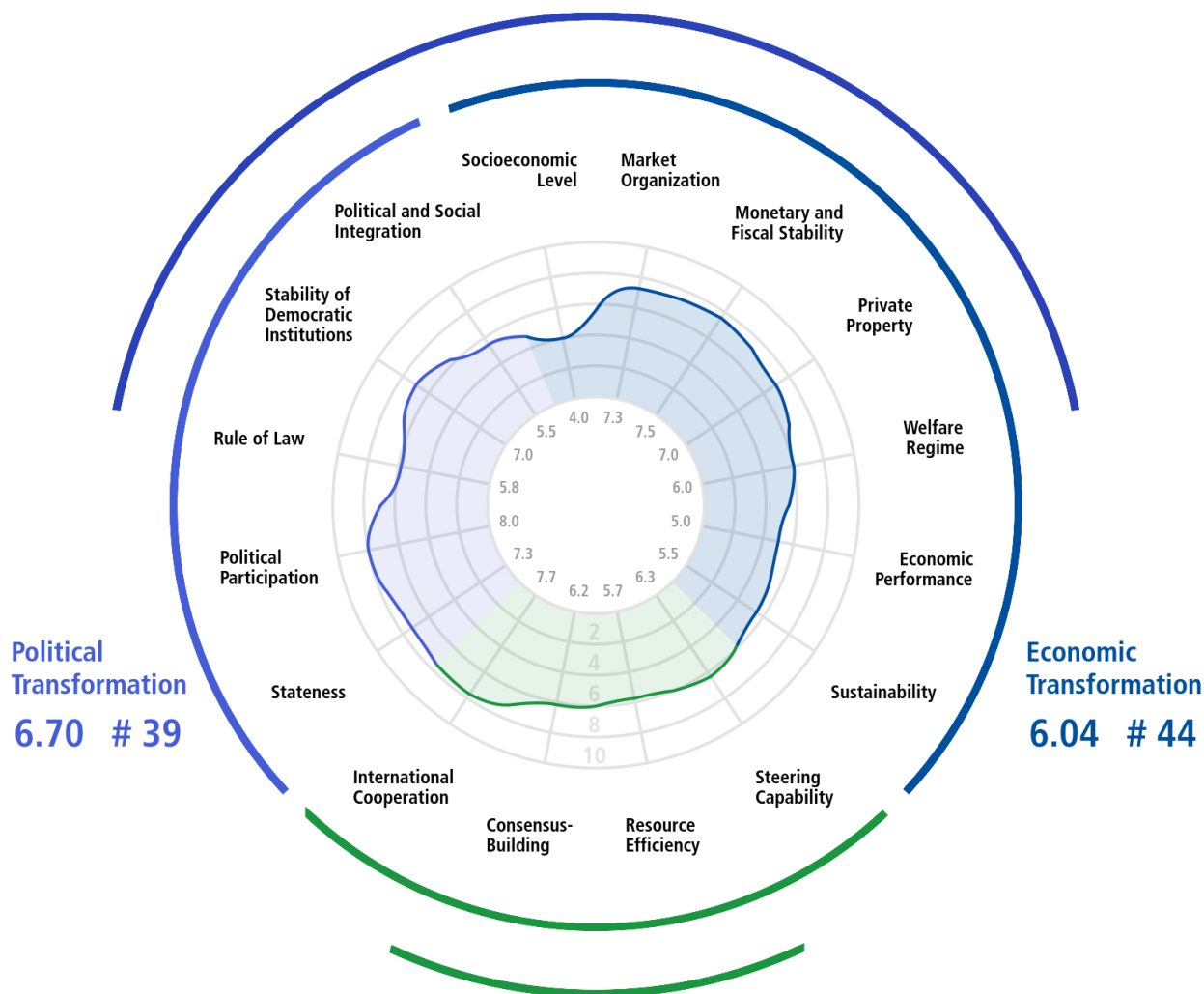


Moldova

Status Index

6.37 # 37

on 1-10 scale out of 137



Political Transformation
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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	2.6	HDI	0.767	GDP p.c., PPP \$	15238
Pop. growth ¹	% p.a.	-0.9	HDI rank of 189	80	Gini Index	25.7
Life expectancy	years	68.8	UN Education Index	0.795	Poverty ³	% 0.3
Urban population	%	43.2	Gender inequality ²	0.205	Aid per capita \$	227.7

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

On July 11, 2021, the pro-Western Party of Action and Solidarity (PAS), affiliated with President Maia Sandu, won the early parliamentary elections, capturing almost 53% of the vote. This majority secured PAS 63 out of 101 seats in Moldova's parliament. The PAS's victory marked a significant turning point and monumental achievement in Moldovan politics. It was the first time since the 1990s that a grassroots party, untangled from oligarchic circles and untouched by corruption, acquired complete control over the country. This outcome empowered the PAS to undertake an ambitious agenda of pro-European reforms, aligning with the principles outlined in the association agreement signed between Chişinău and the European Union in 2014. Shortly after assuming control of the government, the PAS commenced dismantling the oligarchic system that had formed in Moldova, particularly during the de facto rule of Vlad Plahotniuc, an oligarch and billionaire who led the Democratic Party from 2016 to 2019. The PAS has experienced further success in the process of European integration, with Moldova officially becoming an EU candidate state in June 2022.

However, since the end of 2021, the PAS government has had to contend with successive crises – including energy and refugee crises – both caused by Russia's full-scale invasion of Ukraine. These crises have put a strain on an inexperienced, understaffed administration and overstretched the budget of Moldova, which remains among the poorest countries in Europe.

Although the Moldovan economy managed to rebound significantly in 2021 after the recession caused by the COVID-19 pandemic, increasing 13.9% compared to 2020, GDP growth was once again halted in 2022. This time, the Russian-Ukrainian war and the energy crisis were the causes. From January to September 2022, GDP decreased year-to-year by 4%. Additionally, Moldova experienced an inflation increase not seen in over 20 years. The inflation rate began to rise sharply in late 2021 and reached 34.62% in September 2022. On a positive note, the collapse of the upward trend in Moldovan exports the pandemic caused quickly reversed in 2021. Total exports in that year reached \$3,144.5 million, which was 27.5% higher than in 2020 and 13.1% higher than in

pre-pandemic 2019. In 2022, despite the war in Ukraine and to a large extent due to the increase in re-exports, the figure reached \$2.96 billion in the first eight months, showing a 63.5% increase compared to the same period in the previous year.

History and Characteristics of Transformation

As with many Commonwealth of Independent States (CIS) member states, there were heated disputes over questions of nationhood and statehood at the beginning of the transition period. During the late perestroika period, the pro-Romanian faction supported reunification with Moldova's western neighbor and became dominant 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, culminating in Russia-sponsored secession movements. The secession of the two regions in 1990, especially of highly industrialized Transnistria, led in 1992 to an 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. 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 accounted for 40% of Soviet Moldavian GDP (now 15%), delivered a severe blow to the Moldovan economy. The Soviet Union's disintegration had already weakened the economy. The absence of natural resources and competitive agricultural and industrial products further worsened the situation. Between 1990 and 1992, the newly independent state's GDP 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 urgent reforms.

However, when the Communists won the elections in Moldova in 2001, they slowed down economic liberalization. The situation started to change in 2009 when a group of self-declared pro-European parties formed a government and initiated a 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. It turned out, however, that many of Moldova's reforms existed only on paper.

By 2015, oligarch Vlad Plahotniuc assumed nearly full control of the state apparatus, which included the government, parliament and judiciary. This transformation turned Moldova into a prime example of a captured state, where state institutions solely functioned as a means to generate income and provide protection for the ruling political and business elites. Plahotniuc maintained power by informally collaborating with the officially anti-oligarchic, pro-Russian Socialist Party (PSRM) and its de facto leader, Igor Dodon. Both politicians had a vested interest in preserving the system as it was and thwarting the opposition's ascendance to power. Nevertheless, this system unraveled following the parliamentary elections in 2019.

The actual dismantling of the oligarchic system, however, began only later when the pro-Western Party of Action and Solidarity (PAS) won an absolute majority in the Moldovan parliament following early elections in July 2021. The government formed a month later, with the support of the informal PAS leader, President Maia Sandu (in office since 2020), and began a very ambitious process of reforming the country. However, successive exogenous crises have hampered the realization of these plans from the outset – the key one being Russia’s full-scale invasion of Ukraine in February 2022. Nevertheless, Moldova is gradually realizing its ambitions – in June 2022, it became an EU candidate country.

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 almost all of the country’s territory, with the exception of Transnistria, or the Transnistrian Moldovan Republic (PMR). This separatist region is located mainly on the left bank of the Dniester River, while a small part of its territory (including the city of Bender/Tighina) is on the right bank. Despite this situation, the government of Moldova exercises control (contested by Transnistria) over several smaller villages in the Dubasari region. Transnistria is a quasi-state that separated from Moldova in 1990 and is not recognized by any U.N. member state.

Transnistria has its own government, administration, police, armed forces and secret services. These institutions (together with the Russian military’s 1,500 troops stationed in the region) allow the authorities in Tiraspol to maintain a full monopoly on the use of force on PMR territory.

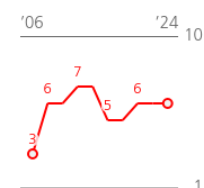
From the beginning of the conflict until 2017, self-proclaimed authorities in Tiraspol made it impossible for Moldova to exercise any control over the 400-kilometer-long section of its eastern border with Ukraine. The situation changed somewhat in 2017, when the authorities in Chişinău and Kyiv launched the first joint control checkpoint on the Kuchurgan-Pervomaysk border-crossing located on the Transnistrian section of the common border (however, all crossings allowing entry from Ukraine to Moldova via Transnistria were temporarily closed by the Kyiv authorities shortly after the start of Russia’s full-scale invasion of Ukraine on February 24, 2022 and continued to remain so in January 2023).

In 2018, Chişinău (based on an agreement with Tiraspol) began issuing “neutral” license plates without state markings for cars registered in Transnistria. Cars with Transnistrian license plates are not allowed to cross the border with Ukraine or Romania to travel abroad. The neutral plates allowed Transnistrian drivers to cross the border and provided Moldovan authorities with information about at least some of the cars registered in the separatist region. However, due to disagreements between Chişinău and Tiraspol, issuing new plates was de facto suspended in December 2021.

Question
Score

Monopoly on the
use of force

6



Despite Chişinău's lack of control over the territory of Transnistria, the vast majority (76% or more than 350,000 people) of the region's residents have Moldovan citizenship, as well as Moldovan identity cards and/or passports.

Moldovan society, despite more than 30 years of independence, has still not managed to develop a consensus on a civic and ethnic-based definition of the Moldovan nation-state. Neither the country's ruling political class nor its intellectual elites have been able to propose an attractive identity model that appeals to all citizens, regardless of ethnicity or background. This in turn affects the cohesion of Moldova's ethnically diverse society, in which Moldovans/Romanians account for around 80% of the population of right-bank Moldova (i.e., excluding Transnistria), while Ukrainians make up 6.5%, Russians 4% and Gagauz 4.5%. 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 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.

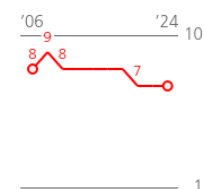
Although there are political parties that advocate for Moldova to unify with Romania, support for them is marginal. On the other hand, the number of people in favor of unification with Moldova's western neighbor has doubled in the last seven years, primarily due to growing disillusionment with the political class, as well as the poor economic situation of the country. In the second half of 2022, about 35% of Moldovans supported this idea.

Currently, more than one million Moldovans (over 35% 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 in the EU.

Moldova, according to its constitution, is a secular state that allows its citizens full freedom of religion. Formally, churches and religious associations do not play an official role in the country's political life. In practice, however, because of the traditional conservatism of the Moldovan population (90% of whom 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).

State identity

7

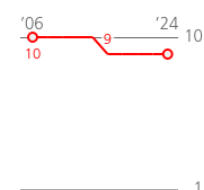


10

1

No interference of religious dogmas

9



10

1

The Orthodox Church also traditionally enjoys high public trust. In 2021, 68.9% of respondents declared very high or some trust in this institution. As a result, the church plays an important role in shaping the views of Moldovans not only in the religious sphere but also socially and politically (particularly in rural areas where more than 60% of Moldova's population live).

Pro-Russian political forces are the main supporters of the Metropolitanate of Chişinău and all Moldova (MOC), which is subordinate to the Moscow Patriarchate. At the same time, some right-wing (pro-Western) groups are inclined to work closely with the Bessarabian Orthodox Church (BOC), which is subordinate to the patriarchate of Bucharest. The MOC is dominant in the country. About 80% of Moldovans are members, while the BOC covers about 20% of population. While in office, pro-Russian president Igor Dodon repeatedly emphasized the importance of Orthodoxy 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.

The MOC regularly attacks the public images of pro-Western groups. In October 2021, in response to the adoption of the Istanbul Convention by the Party of Action and Solidarity (PAS) majority, some MOC clergy under Archbishop of Bălţi and Făleşti Marchel publicly appealed to him to relieve them of their duty to pray for the country's rulers and to ban those politicians from accessing church and sacraments. On May 9, during a Victory Day march, Archbishop Marchel, in a provocative gesture, pinned a St. George ribbon to his chest, even though the Moldovan parliament had banned it (along with other symbols expressing support for Russia's war in Ukraine). However, the MOC's influence on the authorities in Moldova has diminished since PAS came to power in 2021.

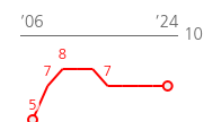
Moldovan state administration structures are firmly established across the country, with the exception of Transnistria. The Moldovan administration is split into three levels: central (national), regional (so-called rayons) and local. Unfortunately, in many fields, its efficiency (especially in rural areas) remains limited due to a lack of funding, a lack of quality staff and high levels of corruption.

Authorities are consistently expanding the water and sewerage infrastructure (often with the support of external donors). Although Moldova still suffers from shortcomings in this area, the situation has clearly improved in recent years. According to the National Bureau of Statistics (NBS), in 2021, 54 towns and 838 villages had access to the public water supply system, which represents 60% of the country's localities (versus 50% in 2017).

At the same time, in 2021, only 8.7% of villages in Moldova had access to a sewage system. Cities have mostly complete sewer systems. In total, 60.5% of households in the country have a toilet with access to running water at home (89.5% in urban areas and 41.6% in rural areas). Of urban households, 95.1% have access to water from the public water supply system. In rural areas, the figure is 56.5% (up to 42.9% of

Basic
administration

7



1

households in rural areas use well water). In general, according to WHO/UNICEF data (2020), 91% of the population have access to basic drinking water services, and around 80% have access to at least basic sanitation services.

Basically, 100% of the country's localities have access to the electricity grid. Moldova's electricity grid is, however, strongly interconnected with the Ukrainian network (a legacy of the USSR). This was a problem during Russian missile attacks on critical Ukrainian infrastructure in 2022; on several occasions Moldova struggled with blackouts lasting from several minutes to several hours. Moldova is also not self-sufficient in terms of electricity production (only 20% of the power required by Moldova is generated on Chişinău-controlled territory). Since March 2022, however, due to the synchronization of the Moldovan power grid with the European ENTSO-E network, Chişinău has had the ability to import energy from Romania and other EU countries, although at higher prices and still through Ukraine. To ensure greater energy independence, Moldova is building a direct energy line to Romania.

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. A number of issues raise concerns, but the degree to which elections are free and fair has clearly increased since Vlad Plahotniuc was ousted in 2019. The last general election (early parliamentary elections), which took place on July 11, 2021, was generally competitive and well run, despite the inadequate handling of election disputes and campaign finance issues. There were no major concerns with respect to registration procedures or polling stations. Access to public media was, in principle, equal for all participants, as opposed to access to private media.

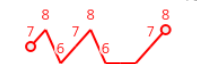
Election campaign funding remains nontransparent. In May 2022, Igor Dodon (the longtime leader of the PSRM and former president) was officially charged with illegally financing his party, among other crimes. Moldovan law enforcement also accuses the ŞOR Party of illegal financing. According to Moldovan investigative journalists, Moldovan pro-Russian parties benefit from the support of political advisers and consultants linked to the Russian special services. They can also count on support from Russian TV stations, which are popular in Moldova.

In December 2022, a number of amendments based on Venice Commission recommendations were made to the Election Code. Now, members of the Central Election Commission (CEC) are nominated not only – as before – by the president and parliament but also by the government, the Supreme Judicial Council and NGOs. The parliamentary opposition is guaranteed one seat on the CEC. At the same time, the amendments lift from the CEC the obligation to organize special polling stations for Moldovan citizens living in breakaway Transnistria (under the law, the CEC “may” but does not have to do so). In practice, this may limit the voting rights of this section of the Moldovan electorate.

Free and fair elections

8

'06 '24 10



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Since the collapse of Vlad Plahotniuc's oligarchic system (in 2019) and the PAS Party's assumption of full power (in 2021), democratically elected representatives of the central government (i.e., parliament, government and the president) have regained the power to govern. The Constitutional Court – which for many years served as an instrument in the interests of specific political or business circles – has been depoliticized. Nevertheless, certain interest groups still have considerable influence over some politicians in local authorities and over certain mid-level officials and functionaries of the Moldovan state apparatus.

The main opposition parties appear to be under very strong political and financial influence of external actors. This notably applies to Russia. In October 2022, the U.S. Treasury Department sanctioned ŞOR Party leader Ilan Şor, who was living in exile in Israel. The verdict maintained that, in June 2022, he had worked with Moscow-based entities to undermine Moldova's EU bid while the vote on its candidate status was underway. It also stated that, with Russian support, the ŞOR Party collaborated with representatives of other oligarchs to create political unrest in Moldova. Prior to the 2021 Moldovan elections, Şor worked with Russian individuals to create a political alliance to control Moldova's parliament in order to push through several pieces of legislation. In some cases, governing acts are challenged by the judiciary, which, in part, opposes many reforms and enjoys a high level of independence.

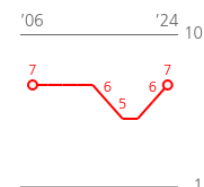
The constitution of Moldova guarantees freedom of association and assembly. As a rule, the authorities do not oppose the organization of public demonstrations and manifestations (including anti-government protests). Protests and gatherings are allowed even though Moldova has been under a state of emergency since February 24, 2022 due to Russia's full-scale invasion of Ukraine.

In the second half of 2022, numerous, regular anti-government protests organized by groups with a pro-Russian profile took place in many cities in Moldova (in Chişinău, the ŞOR Party organized demonstrations, while in smaller towns it was the Socialists). During some protests, police detained up to a dozen participants for behaving aggressively, but in general, the authorities did not interfere with these events. The ŞOR Party carried out its demonstrations unhindered, despite the investigation against it regarding shady financing of the protests (including paying demonstrators).

The Moldovan LGBTQ+ community also enjoys the 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.

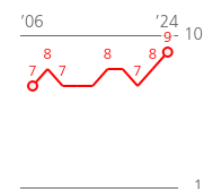
Effective power to govern

7



Association / assembly rights

9



Freedom of expression in Moldova is guaranteed by the constitution and media legislation has clearly improved in recent years. After the change of power in 2021, previously not uncommon cases of intimidation, tracking or harassment of Moldovan journalists by the authorities came to an end. As a result, Moldova has climbed in Reporters Without Borders' freedom of expression ranking from 91st place (in 2020) to 40th (in 2022). The authorities increasingly take into account the results of journalistic investigations. The independence and effectiveness of the Audiovisual Council have been improved as well.

Despite positive legislative changes and the removal of pressure on journalists from the authorities, the media environment in Moldova still faces numerous challenges. Occasionally, representatives of influential political and business groups still threaten journalists. Local media remain largely monopolized by and subordinated to influential political and business circles. Some media outlets are funded by dubious sources (allegedly Russia) and involved in disinformation campaigns to discredit pro-reform political elites. Journalists continue to complain about the problem of access to public information.

In the wake of Russia's full-scale invasion of Ukraine, the authorities in Chişinău have taken measures to limit the reach and effectiveness of Russian propaganda in Moldova. In March 2022, the government temporarily banned Moldovan media outlets from retransmitting broadcasts from countries that had not ratified the European Convention on Transfrontier Television (i.e., Russia). In July, the ban was made permanent and extended to include war movies (which the Moldovan authorities consider propaganda). In December 2022, the Emergency Situation Commission decided to suspend (for the duration of the state of emergency) the broadcasting licenses of six Moldovan TV stations retransmitting Russian channels. Critics of the government argued that the decision was politically motivated, as Ilan Şor controls most of the banned stations.

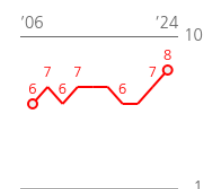
3 | Rule of Law

Separation of powers is formally established in Moldova. According to its constitution, since 2000, the country has been a parliamentary republic in which the government and parliament exercise key power, while the president has a largely representative function. In practice, however, the role various democratic institutions play depends on the position and influence of key political actors. Since 2021, President Maia Sandu has played the key role in the administration. Although formally no longer a member of the ruling PAS, he de facto still maintains significant influence in the party and is its unofficial leader.

Since the collapse of the former oligarchic order, political pressure on judges has eased somewhat, although the judiciary still remains prone to corruption and servility and requires reforms (which are underway). Before 2019, the Constitutional Court

Freedom of expression

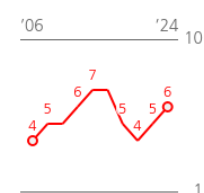
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Separation of powers

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was used for extra-parliamentary lawmaking (through specific interpretations or annulments of laws). It has, however, regained political independence, which has contributed to the separation of powers. Since the second half of 2021, government and presidency posts have been filled by members of the same coalition, which improves cooperation and minimizes friction.

Formally, only people of good reputation and with appropriate qualifications (law degree and relevant work experience or experience in international institutions) are eligible to serve as judges. There are several universities in the country that offer law degrees and also a specialized National Institute of Justice, which trains judges and prosecutors.

For years, the Moldovan justice system has been corrupt and subservient to the ruling political and business elite. It was one of the key tools used to defend the financial interests and position of this group. Despite the PAS's political determination to clean up and repair the judiciary, the system of rents and informal institutional control has proven quite resistant to change. Judicial officers (many of whom have been involved in corrupt schemes), as a matter of "professional solidarity," tend to protect each other and are not only uninterested in exposing abuses within the system but actively block investigations. Many are linked to representatives of the former regime.

The current authorities are trying to replace corrupt cadres, but the process is slow and sometimes controversial, both for Chişinău's western partners and civil society members.

On August 24, 2021, parliament adopted an amendment to the Law on the Prosecutor's Office, which introduced a method for a special evaluation commission to dismiss prosecutor generals on the basis of a negative assessment of their work or for disciplinary reasons. Parliament adopted the new regulation in part to remove then-Prosecutor General Alexandru Stoianoglo, who was accused of acting in the interests of Veaceslav Platon, a businessman and politician sentenced in 2017 to 18 years in prison for his involvement in the large-scale theft of \$1 billion from Moldovan banks in 2014. Stoianoglo was arrested on October 5, 2022 and removed from office.

On February 17, 2022, parliament adopted a law allowing for vetting candidates to the Superior Council of Prosecutors (SCP) and the Superior Council of Magistracy (SCM). A committee of six members conducts the vetting. Half are representatives of parliamentary factions, and the others are proposed by Moldova's international partners, including embassies of EU countries in Chişinău. According to the most optimistic scenario, this should allow the country to "clean" the system in about two years.

Independent
judiciary

5

'06 '24 10



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After taking over in August 2021, the PAS launched a series of investigations of a number of current or former high-ranking government officials and representatives of political and business circles linked to the previous oligarchic regime. On October 5, 2021, the Moldovan Information and Security Service (SIS) detained then-Prosecutor General Alexander Stoianoglo. A criminal case was initiated against him for abuse of office, abuse of power, passive corruption and providing false testimony. On May 26, 2022, a Moldovan court decided to place Igor Dodon, the former president (2016 – 2020) and a longtime leader of the pro-Russian Socialist Party (PSRM), under house arrest for a 30-day period. Dodon is suspected of passive corruption, high treason, illicit enrichment and accepting funds to support his political party from a criminal organization.

However, all of these investigations are proceeding very slowly and have not yet yielded concrete results. There has also been a failure to bring to justice key individuals accused of abuses of power and corruption before 2019. Vlad Plahotniuc, Ilan Șor, Veaceslav Platon and others linked to corruption scandals of that period are outside the country. Șor himself, despite any accusations, is still a key figure in Moldovan politics, leading (remotely) his party and organizing protests. There is also controversy over how some investigations are conducted, primarily pertaining to their transparency (this is especially true in the case of ex-prosecutor Stoianoglo).

Currently, there is a political will to prosecute corrupt people. Court decisions usually favor corrupt (former) officials, who are often connected to corrupt judges. Quite often, cases are brought before the courts and then dismissed.

Officially, Moldova is committed to respecting civil rights (which are codified by law). Their protection is mainly handled by three institutions: the Ombudsman's Office, the Agency for Interethnic Relations (both independent and accountable to parliament) and the Council for Anti-Discrimination and Ensuring Equality (part of the government). In addition, the Standing Committee for Human Rights and Interethnic Relations is in parliament, but its powers are very limited.

In recent years, there have been improvements in the protection of civil rights. For example, on October 14, 2022, parliament ratified the Council of Europe Convention on Preventing and Combating Violence Against Women and Domestic Violence (known as the Istanbul Convention), which Moldova signed in 2017. Despite this, fundamental freedoms are still violated. These freedoms include the right to a fair trial, protection from hate speech, social protection and health care. Hate speech against the LGBTQ+ community is common in Moldova, not only by religious leaders but influential politicians as well. Hate crimes generally go unreported and are poorly investigated, if at all.

Another problem is the poor conditions in Moldovan prisons and detention centers. For instance, medical treatment for detainees is limited. Torture and physical abuse (which are legally prohibited) are sometimes used to “discipline” prisoners. Prisons also face inadequate staffing, which makes it impossible to maintain order and keep

Prosecution of office abuse

5

'06 _____ '24 10



_____ 1

Civil rights

7

'06 _____ '24 10



_____ 1

prisoners safe. On February 5, 2021, due to a lack of prison staff, 60 inmates of Brănești prison were beaten by other detainees. Moldova also detains people with disabilities in psychiatric hospitals without their consent.

The number of reported cases of torture and inhuman and degrading treatment has, however, decreased year by year. While there were 846 such cases in 2019, only 542 cases in 2020 and 498 cases in 2021 were reported. At the same time, the number of criminal prosecutions initiated on the basis of these reports remains very low (59, 43 and 42, respectively).

4 | Stability of Democratic Institutions

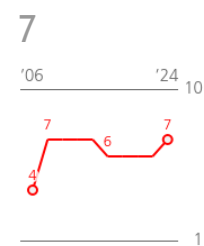
Since the second half of 2021, PAS party representatives or delegates have staffed the vast majority of key public institutions. The party holds an absolute majority in parliament and controls the government, and the PAS de facto leader Maia Sandu is the president. The Constitutional Court, which regained its independence in 2019, is headed by Dominica Manole, who is sympathetic to PAS reforms. The heads of the Prosecutor General's Office and the anti-corruption prosecutor's office also support the reforms. All of this is conducive to minimizing frictions that can negatively affect the effective functioning of democratic institutions.

Tensions between various institutions nevertheless exist. Most are inherent to democratic systems and result from personal animosities, incompetence or the political ambitions of individual officials. The greatest differences and frictions are between the central government and local authorities controlled by the opposition (this applies to some cities, as well as to entire regions, including the Gagauz Autonomy).

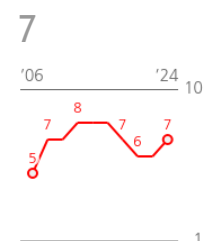
All key political and social actors (including political parties and NGOs) declare – at least rhetorically – their full commitment to the democratic system and its institutions. Even the Socialist Party and ȘOR Party, whose politicians are sympathetic to authoritarian governments (such as Russia's), do not officially reject democratic norms and values. In reality, however, a significant proportion of the political elite has adopted a cynical stance toward democracy. Opposition groups, notably those with a pro-Russian profile, often seek to present themselves as defenders of the democratic system, accusing the ruling pro-Western majority of violating democratic principles or outright usurping power. The instrumental approach to democracy is largely 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.

Although the Moldovan Orthodox Church officially supports democracy, it often speaks out and acts against decisions by the ruling majority, thus undermining the legitimacy of democratically elected authorities. The army plays a marginal role in the country and is not engaged in Moldovan politics.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

The Moldovan party system – at least nominally – represents various political programs. But there is one particularity; unlike in any other country, parties are divided along pro-EU versus pro-Russia geopolitical lines. Russia’s war against Ukraine polarized the parties even more in terms of geopolitical alliances.

In recent years, bottom-up parties based on self-governing structures have assumed an increasingly important role. The Party of Action and Solidarity (PAS), which has been in power since July 2021, is an example of such a structure. Unfortunately, despite the recent change of power, the party system does not enjoy the general public’s trust. Political parties are commonly seen as instruments to protect the interests of their leaders and sponsors, such as business tycoons and external actors.

Some parties, such as, for example, the Party of Socialists of the Republic of Moldova, are regularly accused of receiving funding from Russia and acting in the interests of the Kremlin. In the 2022 Public Opinion Barometer, only 16.5% of citizens stated that they had confidence in political parties, meaning that political parties are the least trusted public institution in Moldova. This result is still the best in recent years (in 2018 and 2020, it was 11.6% and 11.3%, respectively).

Splits in political parties, with members of parliament or local politicians defecting to other parties, are quite common. Some of Moldova’s important political parties are led by individuals facing criminal trials and hiding abroad. Following a Kremlin model, it is also common practice in Moldova to set up so-called spoiler parties shortly before elections. Such parties have no real structures or programs and only serve to take away votes from other (usually pro-Western) parties.

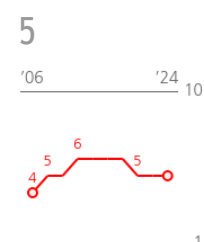
Social self-organization in Moldova is slowly improving but still remains low. Only about 20% and 24% of the population trust trade unions and NGOs, respectively (Public Opinion Barometer, BOP, November 2022), which is slightly higher than in November 2018 (13.2% and 18.7%, respectively). The negative perception of social organizations stems both from Soviet heritage and the actions of some Moldovan politicians, especially from pro-Russian groups, who give the impression of acting in the interests of external actors.

The total number of NGOs operating in Moldova is relatively small. Additionally, most are concentrated in Chişinău. To a much lesser extent, NGOs can be found in two other major cities: Bălţi and Comrat (the capital city of Gagauz Autonomy). In small towns and villages, civil society activity is very limited or nonexistent. Social movements representing, for example, the interests of sexual minorities, women, etc. are still relatively weak in Moldova. However, the political elite’s willingness to listen to the perspectives of sexual minorities and women increased with the change of government in the second half of 2021. Trade unions have limited impact, as they are unable to influence employers or legislation.

Party system



Interest groups



Citizens generally approve of democratic norms and procedures, but the level of trust in them and democratic governance remains moderate. This is largely the result of the low performance of public institutions, which, for many years, many citizens have perceived as corrupt. This is still true to some extent. In a CBS Research poll from February 2022, 34.2% of Moldovans stated that their country is not democratic at all, 31.5% considered it not very democratic and only 22.6% stated that it is at least quite democratic. At the end of 2021, only 32% of the population were satisfied with the way democracy was developing in the country, which represents a slight increase compared to 29% recorded in December 2021 (IRI).

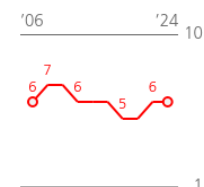
However, since the dismantling of the oligarchic system began after Vlad Plahotniuc's removal from power in June 2019, Moldovans have increasingly seen the authorities as democratic. In the November 2022 Public Opinion Barometer (BOP), 22.7% of respondents stated that Moldova is governed by the will of the people (65.5% said it is not). This result, however low, is visibly higher than in November 2018, when it was only 9.1%. Although confidence in key democratic institutions remains low, it is clearly growing. At the end of 2022, the government was trusted (to a greater or lesser extent) by 28% of Moldovans, according to the BOP (up from 15.2% in January 2019 and 23.2% in October 2020). Parliament was trusted by 24.3% (vs. 11.4% and 15.5%, respectively) and the president by 34.1% (vs. 30% and 28.3%, respectively). Simultaneously, confidence in the electoral process increased radically: 63% of Moldovans declared that the July 2021 early parliamentary elections were "definitely" or "probably" free and fair. In comparison, only 38% of voters stated that the previous parliamentary elections in February 2019 were fair to at least some extent. At the same time, in November 2022 (BOP) almost 40% of Moldovans stated that none of the existing political parties or organizations represented them.

In general, Moldovans are rather reluctant to engage in collective action. To a large extent, 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, the rule of law and even compatriots. Social solidarity in Moldova is rather low. At the same time, Moldovan society attaches great significance to family ties (demonstrated, inter alia, by the vast inflow of remittances). Family ties are likewise important among the political elites, with the result that nepotism and favoritism are rampant because political leaders consider it natural to involve their fellow clan members in their activities.

According to the Partnership for Development Center in 2021, Moldova scored a mere 0.34 on the Social Cohesion Index (SCI), where 1 indicates complete social cohesion and 0 indicates total absence. Although this result is slightly better than in previous years, it is still low. A mild but consistent decrease in the Acceptance Index (which is part of the SCI), assessing the level of solidarity and Moldovans' attitudes toward each other (from 0.71 to 0.68), occurred from 2018 to 2021.

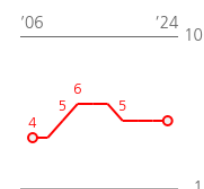
Approval of democracy

6



Social capital

5



National and ethnic groups living in Moldova do not show much interest in each other and often treat one another with distrust. The Gagauz, who live in the south of the country and maintain close ties with Russia and Türkiye, feel particularly ignored by the titular majority but also do not make any significant efforts to integrate themselves into broader society.

With the dismantling of the oligarchic system beginning in 2019, the central authorities stopped blocking citizens' grassroots activities. Nevertheless, the level of social participation in NGOs and volunteering remains low. In small towns and villages, social self-organization is marginal or de facto nonexistent.

II. Economic Transformation

6 | Level of Socioeconomic Development

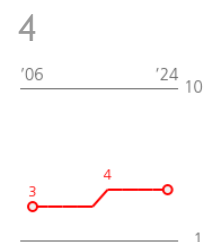
Social exclusion in Moldova is associated with poverty and the place of residence – urban vs. rural or north vs. south – and, to a lesser extent, gender, ethnicity and religion. The number of people living below the national poverty line fluctuated between 23% and 30% in the period from 2014 to 2021. In 2021, as many as 24.5% of Moldovans lived below the national poverty line (currently just under MDL 2,500 or around €120). By comparison, in 2014, the rate was 29.6% and, in 2019, 26.7%. In rural areas, poverty is much more acute than in cities. In 2021, it affected about one-third of the rural population (in 2014, it was 40%) and only about 12% of the urban residents (8.6% in Chişinău). The worst situation is in the southern regions, where about 40% of inhabitants live below the poverty line. Poverty affects large families to a greater extent: 40% of households with five or more members live below the absolute poverty line. Additionally, non-urban residents have limited access to public services, such as health care, sanitation and quality education.

Poverty rates correlate with education level. In 2021, approximately 76% of adults with only primary education lived below the national poverty line, compared to only 5% of those with higher education. Moreover, poverty is particularly prevalent among individuals working in agriculture, pensioners and disabled people. Among people over 60 years old, around 34% perceive their income as insufficient to secure basic necessities, with an additional 44% stating that they can only afford the bare essentials (BOP, November 2022).

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 0.11, from 0.653 in 1990 to 0.767 in 2021. This score is slightly above the global average (0.732), making Moldova 80th out of 191 countries. Moldova's Gini Index score of 26 is notable but does not reflect the gap between urban and rural populations.

Question
Score

Socioeconomic
barriers



Despite this, Moldova has made significant 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 and to only 0.9% in 2018 (World Bank). Factors driving the reduction in poverty include a return to economic growth at the turn of the century, a gradual increase in pension payments and the rapid growth in remittances, which are especially important for the rural population. Hence, the downside of poverty reduction has been the rise in labor migration. However, an increase in the level of poverty is expected in 2023, driven by very high inflation catalyzed by Russia’s aggression against Ukraine and linked to, among other things, rising gas, electricity and food prices (in October 2022, inflation in Moldova exceeded 34%).

The gender gap remains an important issue, even though the situation in this area has improved markedly over the last 20 years. Moldova’s score in the Gender Inequality Index (GII) was 0.205 in 2021 (ranked 51st in the world), compared to 0.348 in 2001. Although women’s salaries are still significantly lower than men’s, the participation of women in public life, including top state positions, and in the country’s economy has also increased significantly.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	11735.8	11532.0	13692.2	14420.9
GDP growth	%	3.6	-8.3	13.9	-5.9
Inflation (CPI)	%	4.8	3.8	5.1	28.7
Unemployment	%	5.1	3.8	3.2	2.3
Foreign direct investment	% of GDP	4.3	1.4	2.9	4.1
Export growth	%	8.2	-14.9	17.5	24.9
Import growth	%	6.2	-9.5	21.2	15.8
Current account balance	\$ M	-1105.8	-886.9	-1699.3	-2275.2
Public debt	% of GDP	28.8	36.6	32.6	32.6
External debt	\$ M	7523.7	8228.2	9288.0	-
Total debt service	\$ M	633.1	714.3	704.6	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-1.4	-5.5	-1.9	-
Tax revenue	% of GDP	17.7	17.9	18.4	-
Government consumption	% of GDP	15.2	17.2	16.8	17.6
Public education spending	% of GDP	6.2	6.6	5.8	5.8
Public health spending	% of GDP	3.8	4.4	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	0.4	0.4	0.4	0.3

Sources (as of December 2023): 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

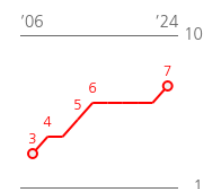
The institutional and legal basis for market competition in Moldova is relatively strong. Since the advent of gradual deoligarchization, the political class's involvement in business activities has clearly diminished. The general situation has also improved due to reforms in line with the Association Agreement and DCFTA with the European Union. However, corruption in public institutions, including the judiciary, continues to threaten the security of investments.

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, for which an independent regulator sets the prices. The Moldovan currency, the leu, is fully convertible, and enterprises do not have problems exchanging it.

Over the past decade, Moldova has made significant progress in removing barriers to market entry. The supervision of business registration falls under the responsibility of the Public Services Agency, which was established in 2017. Under normal circumstances, the registration process should take three days, but it can be expedited to just four hours. In 2021, parliament enacted the digitalization package, which allows for online registration or dissolution of a company, electronic signing of employment contracts and other mandatory documents related to labor law. Moldova also acknowledges digital signatures issued in other European Union member states. In 2022, a total of seven companies were registered online. There have been no notable instances of discrimination against companies based on their origin (domestic/foreign) or ownership structure (private/state-owned).

Market organization

7



The informal sector continues to pose a significant challenge to the economy. According to the National Bureau of Statistics, in Q3 2022, 17.4% of all employees were engaged in informal sector work. This phenomenon is particularly prevalent in the agriculture industry. In non-agricultural sectors, the majority of informally employed individuals can be found in construction, accounting for 70.4% of the total number employed in this sector.

In July 2012, after a lengthy process of drafting and consultations, the parliament passed a law on competition that adheres to EU demands. The Competition Council, a member of the International Competition Council, serves as an independent authority that reports to the parliament and oversees compliance with competition and state aid provisions. The Competition Council has the authority to order the cessation of activities and impose fines, among other actions.

The number of competition infringement proceedings initiated by the council fell in 2021 compared to previous years to 23 (30 in 2020). The number of completed proceedings has also gradually decreased over the last three years, from 24 in 2019 to 19 in 2021. Most importantly, all court rulings issued in 2021 were in favor of the council. Despite the smaller number of completed proceedings, the size of the penalties imposed by the council has increased. In 2021, they amounted to MDL 130.65 million, compared to MDL 37.3 million in 2020.

Competition is also undermined by the relatively serious phenomenon of smuggling into Moldova, made possible, among other factors, by corruption among the customs authorities. Smuggling is also reported to take place through Transnistria, but due to the closure of the de facto border with Ukraine (in February 2022), it is currently negligible. At the same time, the removal of oligarchs from power has clearly reduced the influence of political and business circles on the public institutions that protect the market from unfair competition.

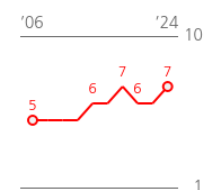
The value of state aid reached 1.06% of GDP in 2021, which is less than the average share of state aid in GDP in the European Union (2.39% in 2020).

The Moldovan economy is open to foreign trade. Its use of non-tariff barriers is very limited. Existing licensing requirements are limited to certain goods (including alcoholic and tobacco products and fertilizers). The simple average most favored nation (MFN) applied tariff equals 5.3% (2021).

In 2001, Moldova joined the World Trade Organization (WTO). In December 2006, it became a member of the Central European Free Trade Agreement (CEFTA). In December 2012, the parliament of Moldova ratified the agreement for the Free Trade Zone of the Commonwealth of Independent States (CIS), which replaced existing bilateral and multilateral free trade agreements with most post-Soviet states. In 2014, Moldova and Türkiye signed a free trade area agreement, and in June of that year, Moldova finally signed the Association Agreement (including the Deep and

Competition policy

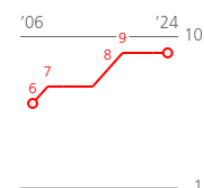
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1

Liberalization of foreign trade

9



1

Comprehensive Free Trade Area) with the European Union. Subsequently, the European Union extended the application of the Deep and Comprehensive Free Trade Area to Transnistria in December 2015, albeit on a slightly different basis.

Exports from Moldova to Russia are highly dependent on political relations – Moscow has not hesitated to ban imports of Moldovan goods for political reasons – and have lost much of their significance in recent years. Despite this, Moldova did not impose embargoes in response to Russian restrictions.

After the large-scale fraud that occurred at the end of 2014 (resulting in a decline in the banking sector's total assets from 84% of GDP in 2014 to 44% in 2019), the government in Chişinău and the National Bank of Moldova, with support from the IMF and foreign partners, implemented a comprehensive banking sector reform program. In January 2018, a new bank law went into effect, formulated with assistance from the central banks of the Netherlands and Romania and based on Basel III principles. The new legal frameworks embrace European best practices in banking regulation, such as the CRD IV package. The relevant institutions responsible for monitoring the sector are working to combat rent-seeking activities. Trust in the banking sector is gradually being restored. Since 2021, efforts have been underway (with some success) to ensure the full independence of the National Bank. However, corruption in the banking sector remains relatively high.

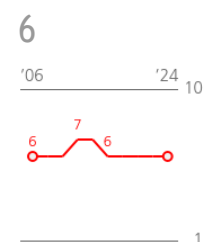
During the first three-quarters of 2022, profit in the banking system increased significantly by 71.6% compared to the same period of the previous year, amounting to 2.8 billion MDL. Total revenues also saw a significant increase of 55.4% compared to the same period of the previous year, reaching 10 billion MDL. Meanwhile, total expenditures increased to 7.1 billion MDL, reflecting a 49.7% increase.

The share of nonperforming loans (NPL) soared to 18% in 2017, mostly caused by the introduction of strict standards for bad loan recognition. Thanks to the successful clean-up of banks' loan portfolios, this indicator declined to 7% in 2020 and reached 6.5% on September 30, 2022. The absolute value of NPL increased by 13.1% (amounting to MDL 3.9 billion).

The balance of deposits decreased from 2017 to 2022 by 2.3% (\$2.1 billion MDL), while bank deposits increased 7.5 times to 1.1 million MDL. The share of customer deposits accounted for 60.9% of total deposits, while legal entities' deposits accounted for 37.8% and bank deposits accounted for 1.3%. On September 30, 2022, foreign currency deposits accounted for 42.3% of total deposits (a 3% decrease compared to the end of 2021). At the same time, MDL deposits constituted 57.7% (a 1.8% decrease), which indicates relatively high trust in the national currency compared to the post-2014 situation. The bank's capital-to-assets ratio reached 12.4% in 2020 and 12.9% in 2021.

The Moldovan Stock Exchange has operated in Chişinău since 1994 but is very small – only 310 transactions took place there in 2022.

Banking system



8 | Monetary and fiscal stability

In 2022, Moldova experienced its highest inflation rate in over 20 years. According to the National Bank, inflation began to rise sharply in late 2021. It was 4.64% in August 2021 (with a target inflation rate of 5%) but jumped to 12.44% in November, eventually reaching 34.62% in September 2022 (the highest inflation rate since 2000). Rising energy prices internationally and regionally, which in turn led to higher domestic energy prices, fueled the increase in inflation. Additionally, a drought this year increased food prices, contributing to inflationary pressure. The dynamics of the MDL/U.S. dollar exchange rate also drove inflation. In November 2021, the exchange rate was 17.6 MDL to 1 U.S. dollar, but by September 2022, it had risen to 19.3 MDL (the last time this rate was observed was in 2017). In November 2022, inflation saw its first decline, amounting to 31.4% year-on-year.

To combat inflation, the National Bank implemented a substantial increase in interest rates. In October 2021, the base rate stood at 5.5% but rose to 12.5% in March 2022, ultimately reaching 21.5% in August 2022. This marks the country's highest inflation since 2000. The required reserve ratio for Moldovan leu deposits experienced an increase from 28% in March 2022 to 40% in August, while the real effective exchange rate index decreased from 131.6 MDL in 2020 to 127.8 MDL in 2021.

Although the authorities' pressure on the NBM has clearly decreased in recent years, additional measures are needed to enhance that institution's independence.

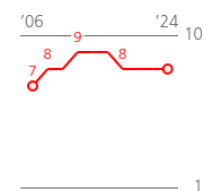
Despite the pandemic and Russia's subsequent full-scale invasion of Ukraine, nominal revenues to the Moldovan national public budget have steadily increased. In 2021, fiscal revenues increased year-on-year by 16.7% to over MDL 47.3 billion. In 2022, they amounted to MDL 59 billion (approximately \$3 billion), an increase of 16.6%. State budget expenditures exceeded MDL 67.915 billion (approximately \$3.62 billion), which means that the deficit was MDL 8.699 billion – almost twice what it was in 2021. As for the national public budget, which also includes local budgets and social and medical insurance funds, its revenues amounted to MDL 91.5 billion (\$4.88 billion), while expenditures reached almost MDL 100 billion.

Moldova's gross external debt during the third quarter of 2022 remained almost unchanged compared to December 31, 2021, increasing by 1%. According to the National Bank, as of September 30, 2022, national debt was \$8,885.50 million, representing 62.1% of GDP. In the same period, public external debt accounted for 31.5% of the total external debt. The IMF is the state's main creditor, holding a 34.8% share of the total public debt (\$975.37 million), followed by the World Bank Group with \$870.09 million, placing it at 31.1%.

In 2022, state debt increased significantly. On December 31, 2022, it reached MDL 94.66 billion (\$5.05 billion), which was MDL 16.91 billion higher than at the end of 2021. As a result, the share of state debt reached 34% of GDP. This marked the second-largest single increase in Moldova's history. Data provided by the Ministry

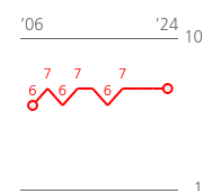
Monetary stability

8



Fiscal stability

7



of Finance also indicate a significant rise in expenses for public debt servicing (interest and commissions), which totaled MDL 2.65 billion (\$140 million) in 2022. It is estimated that, in 2023, expenditures for public debt servicing will double and reach approximately MDL 5.41 billion (\$290 million), according to the medium-term budget framework for 2023 to 2025.

In 2022, the Moldovan budget – burdened by expenses related to the energy crisis (including a mechanism to compensate residents for rising energy prices) and the refugee crisis – received significant support from Chişinău’s Western partners and international institutions. According to the Ministry of Finance, Moldova has received approximately €671 million (three-quarters of this amount represents preferential loans; the rest consists of non-refundable grants).

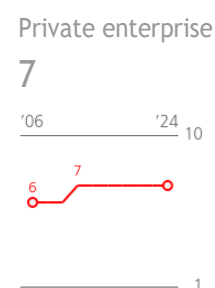
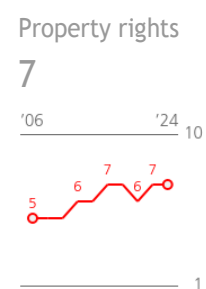
9 | Private Property

The Moldovan constitution, the law on property and other legal acts guarantee the right to private property. However, recently, the rights of owners have been repeatedly challenged by hostile takeovers of assets, known as raider attacks, often with the support of corrupt judges. While the frequency of such events has decreased, a weak and corrupt judiciary still undermines the enforcement of private property rights, despite the initiation of justice reforms in 2021. According to the 2021 Index of Economic Freedom, published by the Wall Street Journal and the Heritage Foundation, Moldova received a score of 55.9 in terms of property rights, placing it in the “mostly unfree” category. Additionally, there are concerns about the enforcement of intellectual property rights in Moldova.

However, there is a noticeable systematic improvement in the protection of private property, largely attributable to Moldova’s international commitments. Since 2014, the country has been steadily implementing reforms in accordance with the Association Agreement with the EU. Furthermore, as of June 2022, Moldova is an EU candidate country, which requires additional adherence to EU regulations.

The rights of entrepreneurs in Moldova are protected by the Law on Entrepreneurship and Enterprises, among other measures. The business climate for private entrepreneurs in Moldova is improving due to several factors, including the progressive deoligarchization of the state apparatus, the gradual (albeit slow) reform of the judiciary – which limits opportunities for so-called raider takeovers – and the current PAS government’s generally favorable attitude toward private enterprise.

According to Moldovan legislation, the state treats state-owned enterprises (SOEs) and private companies equally. In reality, SOEs are privileged. Government representatives usually sit on SOE boards. SOEs have long enjoyed protection and preferential government treatment because they served as an illegal source of income for the political elite. However, this has recently been seriously curtailed. Certain



activities, such as human and animal medical research, the production and sale of weapons, most postal services, and real estate registration, are nevertheless exclusively state-owned. Additionally, Moldovan law only allows foreigners to lease, not purchase, agricultural and forest land.

The position of private companies relative to state-owned enterprises (SOEs) is improving as the government gradually privatizes state assets. Unfortunately, for many years, privatization did not necessarily adhere to market principles. An example of nontransparent privatization occurred in 2018 with the sale of the country's national airline, Air Moldova. A subsequent audit of the company in June 2019 revealed serious violations in the privatization process. It suggested, among other things, that the company deliberately accumulated debt to lower its price. As a result, in 2019, the government imposed a moratorium on further privatizations of state assets, which was lifted a year later. During the first half of 2021, the government sold approximately \$5.2 million worth of state-owned assets.

10 | Welfare Regime

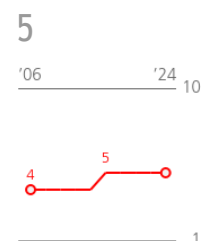
The Moldovan social security system is public, with a pension system based on contributions deducted from employees' wages. The efficiency of social assistance remains very limited due to the poor financial situation of the country. The pension system is not only underfunded but also overburdened, mainly due to the disastrous demographic situation and mass migration. In 2022, the dependency ratio – the ratio of the working-age population to the retirement-age population – dropped below 1.3.

In December 2021, after assuming power, the PAS party reintroduced a reform that had been previously discarded, pertaining to the retirement age. As of January 1, 2022, the retirement age for men was 63 years. For women, the retirement age will be raised by six months annually, with the goal of reaching 63 years by 2028. Women who have given birth to and raised five or more children will be eligible to retire three years earlier than the standard retirement age.

In October 2021, the government carried out the largest pension increase in years. The minimum pension (for those with full seniority) was increased to MDL 2,000 (an increase of more than 65%). As a result, the average pension increased by 22.5%, reaching MDL 2,578 (approximately \$135) in early January 2022. However, this sum is still very small. One-quarter of pensioners in Moldova must seek additional income. The average pension at the end of 2021 was just 113% of the absolute poverty line. Pensions were raised by 22% in 2022, an increase well below the annual inflation of 34% in November 2022. At the beginning of 2023, they were at MDL 3,156 (approximately \$165).

Unemployment benefits range from 40% to 50% of one's former salary (not to exceed the average monthly salary) and are paid for up to nine months, depending on the length of previous employment. Supplementary social security benefits are primarily provided to individuals with disabilities, caregivers of children with disabilities and certain elderly individuals who have reached retirement age.

Social safety nets



Despite increasing budgets, public health care remains severely underfunded. However, the list of reimbursed or free medications has been expanded, improving accessibility to medicine, particularly for individuals with low incomes. Concurrently, authorities have relatively successfully alleviated the impacts on the population of the significant rise in energy and gas prices. Between the end of 2021 and the end of 2022, gas tariffs for domestic consumers increased by a factor of six, while electricity rates rose two to three times. To assist the population, the government initiated a subsidy program that covered half of the households, with the compensation amount contingent upon energy and gas consumption and consumers' financial circumstances, among other factors.

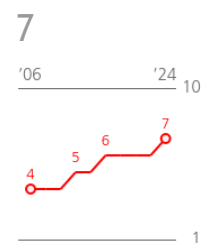
Women comprise 52% of the population and are increasingly better represented in Moldova's political and economic life. Moreover, in 2020, a woman, unmarried and childless, was elected president for the first time in the history of Moldova. In August 2021, the government of Prime Minister Natalia Gavrilita was formed, with a woman, Ana Revenco, taking the position of Minister of Interior for the first time. Earlier in 2015, a woman named Irina Vlah was elected for the first time to the post of Bashkan, the highest post in the Gagauz Autonomy. As of 2016, political parties must have at least 40% female candidates on their electoral rolls. As a result, 40% of members of parliament in the parliamentary elections in July 2021 were women, compared to only 25% in 2019. The share of women in local, district and municipal councils increased from 25% and 14.6%, respectively, in 2007 to 36.5% and 28.7%, respectively, in 2019. Additionally, in the 2019 local elections, a woman won more than one in five mayoral positions, an increase from 18% in 2015. The head of the Constitutional Court is also a woman.

Women are becoming more active in business. In 2020, women ran approximately 34% of all companies in Moldova (27% in 2017). However, according to the National Bureau of Statistics (NBS), women earn, on average, 14% less than men. The employment rate of women with children is about 20% lower than that of women without children.

Access to education for women and girls is generally good. The ratio of female to male enrollment in primary and secondary schools equals 1.0. The adult literacy rate is 99.4% overall. The gross enrollment ratio is 106.3% for primary education and 108.5% for secondary education. Women aged 25 to 64 have a higher level of education than men. The largest gap is in tertiary education, where the ratio of women to men is 1-to-3.

LGBTQ+ individuals, people living with HIV and tuberculosis, and those who suffer from mental health illnesses are socially stigmatized and occasionally mistreated by the authorities. Another issue lies in the quality of education, particularly in teaching the official language, in ethnic-minority schools. This problem largely stems from the emigration of teachers and the scarcity of new teaching staff.

Equal opportunity



In some cases, non-whites may face discrimination in the labor market, but this phenomenon is uncommon. Discrimination on the basis of religion (or non-religion) is also uncommon. Although Muslims may face resentment from some people, there is no evidence of systemic discrimination.

11 | Economic Performance

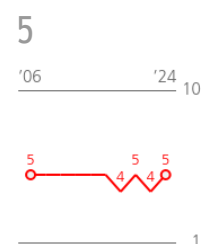
Although the pandemic and related restrictions on economic activity interrupted GDP growth in recent years, the decrease was not significant (around 1% of GDP). At the same time, there was a rapid rebound, with GDP rising 13.9% in 2021. GDP per capita (PPP) also increased in 2021 to MDL 15,637 (from MDL 12,942 in 2020). In 2022, however, Russia's war against Ukraine and the energy crisis hit the Moldovan economy. According to the NBS, GDP in the period from January to September 2022 decreased by 4% compared to the same period in 2021. In January 2023, the World Bank forecasted that, in 2022, the economic decline in Moldova would amount to 1.5%, but that the economy should grow by 1.6% in 2023 and 4.2% in 2024.

The pandemic also led to a collapse of the upward trend in Moldovan exports, which, in 2020, decreased by 11% compared to the previous year. However, a turnaround occurred in 2021, with total exports rising by 27.5% compared to 2020 and 13.1% compared to the pre-pandemic year of 2019. In 2022, Moldovan exports shot up again, despite the war in Ukraine – or indeed, because of it. Due to the increase in re-exports, the first eight months of 2022 saw a rise of 63.5% compared to the same period of the previous year. Net inflows of foreign direct investments reached 1.3% and 2.9% of GDP in 2020 and 2021, respectively.

Interestingly, despite the pandemic, the volume of remittances grew at a record pace. According to the National Bank, in 2020, the transfers, recalculated in U.S. dollars, increased by 21.6% compared to 2019. This phenomenon can be explained by existing travel restrictions, which make it difficult to bring cash into the country and force people to transfer remittances via banks or intermediary services. The official unemployment rate remains low, around 3% to 4%. In 2021, the net volume of remittances to Moldova exceeded \$1.611 billion, up 8.4% year-on-year. In 2022, it reached \$1.75 billion, an increase of 8.7%.

Public debt, which rose rapidly in the aftermath of the 2014 banking scandal, gradually decreased to 28.4% of GDP in 2019 (IMF). However, it later started to grow again, reaching 33% in 2021 and 34% of GDP in 2022. The net inflow of foreign direct investment almost doubled between 2018 and 2019 (from 2.72% of GDP to 4.95%), but then decreased to 1.3% of GDP in 2020, reaching its level in 2016/2017. In 2022, Moldova, like many other countries, struggled with skyrocketing inflation, which peaked in October (34.6%) before starting a gentle decline (30.4%), well over the range of 5% ±1.5 percentage points stipulated by the Monetary Policy Strategy.

Output strength



12 | Sustainability

Protection of the environment has gained importance on Moldova's political agenda, leading to significant improvements in the legal framework. On June 20, 2017, Moldova ratified the Paris Agreement on Climate Change. In 2021, the Ministry of Agriculture, Regional Development, and Environment announced that Moldova had successfully reduced greenhouse gas (GHG) emissions by nearly 70% compared to 1990, surpassing its commitments under the agreement by 4%. The majority of these reductions occurred in the agriculture sector, exceeding the intermediate targets for 2020 by 26%, and in the electricity and heat production sector by 19%. Additionally, Moldova surpassed its 2020 target of 17% by achieving 23.84% renewable energy in gross final energy consumption in 2019. However, it should be noted that the total share of renewable energy sources in gross final consumption decreased significantly compared to 2018 (27.48%).

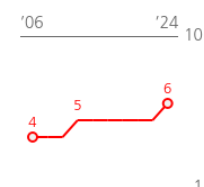
In 2018, Moldova adopted the Program on the Promotion of Green Economy for 2018 to 2020, which focused on reducing air pollution. Additionally, it implemented the National Development Strategy Moldova 2030, which outlines actions to protect the natural environment. The following year, in 2019, Moldova passed a fuel quality law, marking the first air quality legislation in the country's history. During the same year, several normative acts related to the climate were adopted, including a regulation on national monitoring and reporting of greenhouse gas emissions. The Law on the Promotion of Renewable Energy, which aligns Moldovan legislation with the EU acquis and provides financial support for investors, went into effect in March 2018. Under this law, investors can now use a stable tariff for electricity produced from renewable energy sources, within a specific power limit, for a period of 15 years.

Improvement of the legal framework correlates to an increase in energy production from renewable sources, according to the National Energy Regulatory Agency of Moldova (ANRE). Between 2014 and 2021, the amount of electricity produced from renewable energy sources increased by a factor of 37, rising from 3,134,500 kWh to 116,552,000 kWh. However, Moldova still lags behind its neighbors. The most significant growth, a thirtyfold increase, occurred in wind generation, which surged from 2,477,000 kWh in 2016 to 76,310,000 kWh in 2021. Wind turbines currently generate 65.5% of the energy produced from renewable sources.

Compared to other European countries, Moldova is one of the least forested, with forests covering almost 11% of the country's territory. The current authorities plan to increase the country's forest cover to 15% by 2030 as part of the National Afforestation Program. However, the costs of this project are enormous, estimated at around €1 billion.

Environmental
policy

6



In 2021, Moldova had a score of 0.795 on the U.N. Education Index. Although financing of education in absolute terms increased by 60% between 2015 and 2021, education in Moldova, at each of the three levels, remains underfunded, which affects its effectiveness. Expenditure on education relative to GDP was 6.4% in 2021, up from 5.8% in 2015 and 5.4% in 2018. Recent attempts to close some schools and shift funds to the remaining ones met with negative public reception. In 2017, the government introduced a moratorium on the closure of schools. Nevertheless, the number of schools at the first and second levels decreased by 7% between 2015 and 2021. Over the same period, the number of pupils increased by 0.7%.

While primary education generally performs well, the state of Moldova's underfunded higher education system remains unsatisfactory. In 2022, only Chişinău State University and the Technical University of Moldova were included in the QS World University Rankings, but they received low ratings. Among universities from Emerging Europe and Central Asia, they were ranked 301 and 350, respectively, out of 450 universities.

To address the problem of underfunding, a major reform of higher education began in 2022. Small public universities and institutes were merged into larger ones, which reduced their maintenance costs, simplified administration and allowed for allocating more funds. As a result, the number of state-financed higher education institutions has decreased from 28 to 4. Approximately €34 million has been allocated from the budget for the reorganization, with €10 million earmarked for modernizing the management and quality assurance system and another €24 million designated for modernizing university infrastructures and developing educational programs.

The level of R&D spending is marginal and oscillates around a mere 0.2% of GDP (World Bank, 2020). Local universities rarely collaborate with industry in R&D. As a result, Moldova ranked 56th in the Global Innovation Index 2022, ranking 33rd in Europe. Moldova ranks lowest in the categories of “Institutions” (98th), “Infrastructure” (84th) and “Business sophistication” (79th). Mass migration and the related brain drain only worsen the situation. On a positive note, the IT sector has been developing very dynamically in recent years. IT exports from Moldova reached \$349.82 million in 2021, an increase of 35% compared to 2020 and more than five times higher than in 2016.

Education policy /
R&D

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Governance

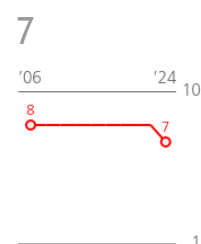
I. Level of Difficulty

The Moldovan economy – small and highly vulnerable to external shocks – remains the key structural difficulty. Moldova is one of the poorest countries in Europe with a GDP of \$13 billion in 2021 (current U.S. dollars) or \$5,230 GDP per capita, according to the World Bank. The economic situation in Moldova worsened in 2020 due to the pandemic (a decline of 7.4% in 2020 according to World Bank). However, the economy rebounded by 13.9% in 2021. Largely due to the Russian-Ukrainian war, it contracted again in Q2 2022 (-1%) and Q3 2022 (-12%). Moreover, Russia's aggression in Ukraine also poses a serious security challenge to Moldova, causing domestic destabilization through political proxies such as the Șor Party and economic levers such as Moldova's energy dependence on Russia – not to speak of direct threats from breakaway Transnistria and the Russian military contingent stationed there.

The economy lacks competitive advantages. It is moderately attractive to foreign investors, who are discouraged by corruption, political and financial scandals, a lack of transparency, an unstable political situation, and security risks (e.g., the Transnistrian conflict and periodical sociopolitical tensions in the Gagauz Autonomy). For example, the net inflow of foreign direct investment in 2015 (as a result of the 2014 banking scandal) shrank by 35% and in 2020 (due to COVID-19) by 69%. High emigration rates and an extremely underfunded transport and energy infrastructure inherited from the Soviet Union hamper economic development and deter investors. Moldova's dependence on gas, electricity and fuel imports is also a serious problem (linked to risks of supply disruption).

The persistent poor condition of the economy is responsible for the low standard of living in society. About 25% 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. In 2021, the fertility rate was 1.73 and the natural growth balance (births/deaths) reached -16,200. Remittances from labor migrants are an important driver of consumption in the country. In 2021, official currency remittances amounted to \$1,611 billion (12.4% of GDP).

Structural
constraints



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 15,500 CSOs registered in Moldova in December 2022. Although the number of CSOs has been growing (12,300 in February 2019 and 14,300 at the end of 2020), most are inactive and many lack real headquarters. According to Tudor Lazar, a member of the NGO Council, in October 2022 there were about 3,800 active NGOs in Moldova (ca. 24% of all those registered). Another problem is the high concentration of NGOs in the country's capital (about 80% of all active organizations are located in Chişinău). The activity of CSOs registered in Transnistria is limited, as they are not allowed to monitor human rights or democratic processes. They also face politically motivated persecution from the separatist authorities. Some non-governmental organizations in Moldova are directly linked to political parties and circles and serve their purposes.

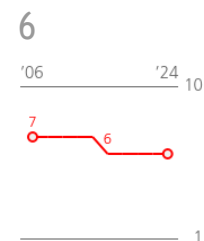
Sustainability remains a key problem for Moldovan CSOs. Due to the lack of internal financing, 80% to 90% of CSO activity is funded from foreign sources, with the European Union, UNDP and the United States the largest donors. This, in turn, makes NGOs vulnerable to attacks from some Moldovan politicians and businessmen who regularly accuse them of acting in the interests of “external actors.” It undermines public confidence in the third sector. The level of trust in CSOs, although growing in recent years, still remains low. According to Public Opinion Barometer (BOP) in 2017, 17% of Moldovans had very high or some confidence in such organizations. In 2020, that percentage grew to 23.1% and, in 2022, to almost 24%.

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. The biggest violent incident in recent years related to ethnic issues occurred in June 2021, when a mass brawl between the Roma population and other residents of the village of Otaci took place. A group of Roma was accused of attempting to rape a young girl, triggering these events. The situation was quickly brought under control by the police. No one was seriously injured.

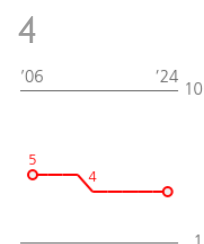
Despite the experience of the Transnistrian war in 1992, there is no significant hostility between Moldovans living on the right bank of the Dniester River and the inhabitants of separatist Transnistria. Some tensions can, however, occasionally be observed between the authorities in Chişinău and Tiraspol.

Nonviolent tensions of an ideological nature result from differences in historical memory and approaches to the issue of identity. These differences polarize the population over the issue of Moldova's geopolitical affiliation. Russian media outlets (which are very popular in Moldova) and some political circles (especially those with a pro-Russian profile) exploit these differences for propaganda purposes, which creates additional tensions in society and further increases the East–West polarization. These groups also traditionally accuse pro-Western forces of wanting to

Civil society traditions



Conflict intensity



reunite Moldova and Romania “against the will of the people,” in order to mobilize ethnic minorities, who are generally suspicious of such a scenario. The issue of language is another important factor that regularly generates tensions in the country. Although Moldovans are divided in their perception of the war in Ukraine (some blame the West and Kyiv for the outbreak), these differences do not lead to significant social tensions. There are also virtually no acts of aggression, let alone violence, against Ukrainian refugees present in Moldova.

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 unification with Romania and reluctant to support European integration, although they happily accept grants from the European Union and Romania.

II. Governance Performance

14 | Steering Capability

The PAS parliamentary majority governing Moldova since August 2021, with support from President Maia Sandu (elected in 2020), has clear strategic, long-term political priorities. These are, first and foremost, European integration (including joining the EU) and the deoligarchization and democratization of the state (including the deep reform of the judiciary and restoration of the rule of law), as well as the energy diversification to “de-weaponize” energy, which Moscow has used to pressure the Moldovan government for many years.

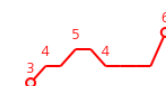
The government, the parliamentary majority, the presidential administration and pro-Western, liberal members of civil society, and segments of the media are the main internal drivers of reforms. The country’s partners, especially the European Union and the United States, remain powerful external drivers of reforms. Defenders of the status quo are mainly the pro-Russian opposition and its associated media and NGOs, as well as representatives of oligarchic political and business circles. Despite their removal from power, they still have influence on state structures. The Moldovan Orthodox Church is also a strong opponent of change.

Question
Score

Prioritization

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The government's ability to implement its policies is constrained primarily by two factors: a shortage of human resources and the numerous ad hoc crises the authorities have to manage that distract from long-term goals and reforms. The administrative and governmental apparatus created by the PAS Party largely constitutes people who have no experience working in public structures, which limits their effectiveness. Many ministries and other public institutions suffer from staffing shortages because salaries in the state sector are uncompetitive (especially for those with good educations and experience). Moreover, the management of successive crises (the energy and refugee crises, high inflation and other effects of the war in Ukraine) further reduces the already-limited capacity of the Moldovan administrative apparatus.

Despite some tensions among the ruling elite (between the president and some ministries or parliamentarians), power in the country, as of the second half of 2021, remained in the hands of forces interested in deep state reforms, democratization and deoligarchization. In this regard, the government does not have to face a pro-Russian, populist opposition fighting to preserve the status quo. This opposition, however, is pretty active on the streets. Russia leaves no doubt who is behind these activities. Moreover, populating some public institutions – in middle and low positions – are people still representing the interests of those oligarchic circles removed from power. They are interested in sabotaging reform efforts.

The greatest success in terms of delivering on policy priorities was, in 2022, becoming independent from Russian gas supplies and able to import electricity from the EU. Meanwhile, judicial reforms have yielded much less tangible successes (except for vetting new judges).

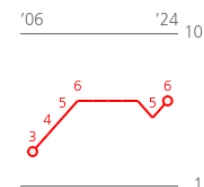
Policy learning has improved in Moldova in recent years. The snap parliamentary elections in July 2021 introduced a number of young people, often educated in the West and/or with experience in the third sector, into parliament and the government. Such people tend to be open to external expertise (from both academia and civil society). The change of power likewise entailed an influx of young specialists into the state apparatus who provide policymakers with proper know-how and expertise.

One manifestation of the Moldovan authorities' flexibility in recent months has been the success of the country's energy diversification. In 2022, Moldova, together with Ukraine, synchronized its power grid with Europe's ENTSO-E and gained the ability to import electricity from the West. In late 2021, for the first time in its history, Moldova purchased gas on the SPOT market from non-Russian sources (thanks to substantive support from EU specialists, who provided Chişinău with relevant know-how). In 2022, it began to build up its own gas reserves in Romania and Ukraine.

However, low wages continue to undermine the motivation and effectiveness of civil servants. Due to this, the turnover of personnel is frequent, which jeopardizes institutional memory.

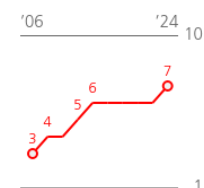
Implementation

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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 and a lack of professionalism. Although political affiliation is no longer the dominant criterion for employment, the pool of potential qualified personnel remains limited, as the ruling PAS majority looks with distrust at people who worked in the administration under the previous oligarchic regime (whether or not they are suspected of corruption). The effectiveness of local administrations (particularly in rural areas) remains, at best, moderate because of corruption and – in some cases – dependence on certain political and business circles, a lack of funding and quality staff. The fundamental problems negatively affecting local authorities' independence are the fragmentation of local government units and their small size.

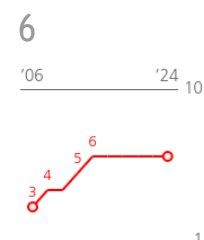
In recent years, the legal framework regulating the functioning of the administration has improved. In July 2018, in order to ensure the transparency, coherence and accessibility of administrative procedures, parliament approved a new administrative code, which streamlines all legal regulations regarding this issue into a single legislative act. The current authorities also embrace the digitalization of public administration. In 2021, the Moldovan government chose its first ever deputy prime minister for digitalization. The first local elections in Moldova, in which votes can be cast online, are also likely to be held in the fall of 2023.

The budget is adopted transparently, without much controversy. At the same time, Moldova recorded a very high (by its own standards) budget deficit in 2022, of 14%. However, this deficit was justified and resulted from large allocations to expenditures related to the energy crisis and support for Ukrainian refugees, among other expenses. The national debt is relatively low and manageable (33% of GDP in 2020). Audit institutions function, although their performance leaves room for improvement.

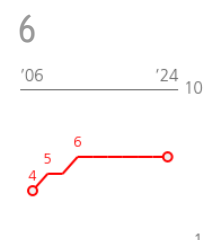
Officially, policy coordination is conducted by different state institutions, commissions and specialized task forces. Sectoral coordination councils have been established under all ministries and other central authorities. Additionally, the State Chancellery plays an important role in resolving possible difficulties in the process of policy coordination (e.g., regarding the division of competences). In practice, however, despite changes in the administrative apparatus in recent years and the PAS's assumption of power, Moldova's policy coordination system is still largely personalized and centralized.

The country's key decision-making center is President Sandu, along with a small group of politicians and officials close to her. They define the political agenda for the ruling majority. Horizontal relations between various institutions and ministries are moderately developed, although largely dependent on personal relations between, for

Efficient use of assets



Policy coordination



example, individual ministers. Personalization and centralization sometimes lead to tensions between the executive and certain institutions, especially if ambitious officials competing for a position in the political hierarchy lead them. A separate problem negatively affecting the effectiveness of policy coordination is the significant staff shortage in public institutions. Staff numbers are often inadequate, and many officials there are young and inexperienced.

The Moldovan authorities have introduced a number of measures in recent years to improve the effectiveness of the anti-corruption system. Among other things, leaders of institutions whose independence was highly questionable were replaced. Prosecutor General Alexandru Stoianoglo was removed from office in October 2021. On November 18, 2021, the head of the National Anti-Corruption Center (CNA), Ruslan Flocea, was also dismissed. Parliament made the decision based on a report its legal committee presented that same day, finding the center's work ineffective. The CNA's independence had previously been questioned, not least because Flocea (who took the helm in July 2019) had earlier been a secretary in President Igor Dodon's office. The secretary of the Ministry of Justice, Iulian Rusu, succeeded him in February 2022.

In January 2020, Viorel Morari (head of the anti-corruption Prosecutor's Office until December 2019) was arrested and charged with falsifying documents and abusing his position of power in the interests of fugitive politician and businessman Vlad Plahotniuc. In June 2022, Veronica Dragalin (an assistant U.S. attorney in Los Angeles) won the race for the position Morari previously held. However, the anti-corruption apparatus still includes many people with dubious records who slow down the reform process.

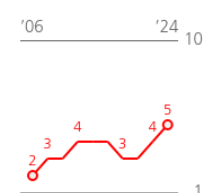
The anti-corruption service has recently focused on the problem of illegal financing of political parties. In June 2022 alone, the CNA conducted nearly 100 searches of pro-Russian ȘOR Party offices. A few days earlier, one of the party's leaders, Member of Parliament Marina Tauber, who was first stripped of her immunity at the prosecutor's request, was arrested.

On May 26, 2022, a Moldovan court decided to place Igor Dodon, the country's former president (2016 – 2020) and longtime leader of the pro-Russian Socialist Party (PSRM), under house arrest for 30 days. Dodon was charged with passive corruption, treason, illegal enrichment and financing a political party through a criminal organization.

Since the Sandu government assumed power, some progress has been made in the investigation of the \$1 billion bank fraud case, which occurred at the end of 2014. In October 2019, a parliamentary inquiry commission published a report naming the main beneficiaries of the theft (Vlad Plahotniuc, Ilan Șor and Vlad Filat). In May 2020, the prosecutor general openly named Plahotniuc as the main beneficiary. Unfortunately, the authorities have thus far not punished the principals responsible for this theft or recovered the stolen funds.

Anti-corruption
policy

5



The auditing of public spending is becoming more and more effective. However, an online e-procurement system called Mtender,” operational since 2018, still requires improvement. Access to public information remains difficult, despite the change in power and the overall improvement in the situation.

16 | Consensus-Building

On a declarative level, all Moldovan mainstream political forces agree that democracy is the best possible system of government for the country. In practice, however, many political groupings are not interested in democratic governance but solely in pursuing their petty interests at any cost. Although the PAS Party, which has been in power since 2021, is indeed interested in democratizing the country, many years of rule by nominally pro-democratic parties linked to oligarchic circles have caused a large part of the electorate to perceive the democratic system as ineffective and corrupt. In November 2022, 65.5% of voters declared that the country is not governed according to the will of its people (BOP). However, this result is much better than during Plahotniuc’s rule (83.7% in November 2018).

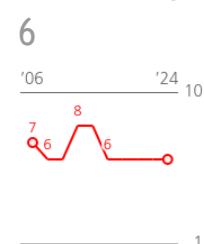
Some left-wing and populist political parties evince sympathy for elements of the centrally planned economy (e.g., kolkhozes) to win the support of an electorate nostalgic about the Soviet past, mainly the elderly and the poor, encouraged by the promise of rebuilding the welfare system. In practice, however, none of the mainstream political parties in Moldova are interested in moving away from the market economy and accept it as a foundation for the modern Moldovan state.

At the same time, however, leading business and political circles (connected to the current opposition parties) seek to use their influence to protect their businesses and provide themselves with better conditions than their competitors, which jeopardizes the free market.

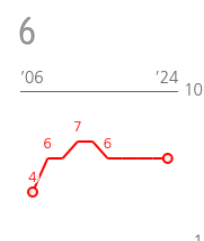
The pro-Western forces that took over the government in the second half of 2021, unlike the majority of the elite in power to date, seek to carry out real reforms, strengthen the rule of law in the country and fight corruption. However, these efforts continue to meet resistance. Many members of the Moldovan political elite (currently in opposition) represent specific political and business (or simply oligarchic) groups that are uninterested in reform. Despite their removal from power, there are still people linked to these actors (for example, Vlad Plahotniuc) in public institutions (including the judiciary, the police and the secret services) who pursue those actors’ interests and sabotage the implementation of reforms.

Pro-Russian parties – above all, the ŞOR Party – also officially seek to overthrow the ruling reformist government. They act with assistance from and are coordinated by Moscow, as revealed by a number of foreign intelligence sources in October 2022. Accordingly, as of June 2022, Ilan Şor (leader of the ŞOR Party) reportedly received

Consensus on goals



Anti-democratic actors



Russian support. His party was coordinating with representatives of other oligarchs to create political unrest in Moldova. Moldovan officials are concerned that the Russian-linked opposition may seek to stage a coup. Nevertheless, reformers do have the ability to limit the influence of anti-democratic actors significantly. External partners' support helps in this regard (i.e., in the second half of 2022, Ilan Șor and Vlad Plahotniuc were sanctioned by the United States and the UK).

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). The inability to develop an attractive identity model to which all citizens can subscribe, or a national idea around which society could unite, remains a key issue affecting the cohesion of Moldova's ethnically diverse society. This also makes it difficult to resolve the problem of Transnistrian separatism and to ease the tensions between Chișinău and Gagauzia. However, those divisions have not yet given rise to violence.

Additionally, the population is severely polarized over Moldova's geopolitical alignment (pro-Russian or pro-European). Politicians often use this division to mobilize their respective electorates. Pro-Russian groups, for example, claim that their opponents want to abolish Moldovan statehood (by merging the country with Romania), oppress the Russian language and Orthodoxy and promote the rights of sexual minorities. The polarization between these two camps has grown further since Russia's full-scale invasion of Ukraine.

Indeed, there are different opinions as to whether the state should continue to exist or unite with Romania. This topic provokes strong emotions among Moldovans, as the number of supporters for unification is growing (up to 40%). This problem exacerbates ethnic divisions, as the vast majority of Russian-speakers in Moldova (Ukrainians, Gagauz, Russians) are strongly opposed to unification.

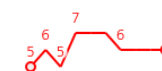
As a rule, the current Moldovan authorities are favorably disposed toward NGOs (in contrast to the distrustful attitude of previous governments). Many representatives of the ruling elite at both the highest and middle levels of government come from the third sector (which has somewhat weakened oversight by civil society), have extensive contacts in this arena and have an understanding of its problems and the role NGOs should play in a democratic state.

NGOs very actively participate in public debate. Their representatives are visible in the media (both traditional and online) and regularly review government actions. NGOs also prepare numerous analyses and issue recommendations to improve the functioning of the state, the reforms carried out by the authorities, etc. These, however, are mostly commissioned and paid for not by the government in Chișinău but by foreign institutions and foundations.

Cleavage /
conflict
management

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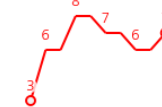


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Public
consultation

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Representatives of the third sector are also invited to selection commissions (for important public positions) and to participate in consultative bodies. Despite this, the authorities do not always take their opinions into account. Consultation during the legislative process is sometimes deemed insufficient (for example, insufficient time to analyze proposed legislation). Journalists and other representatives of the sector also continue to complain that access to public information is occasionally restricted.

The country's Soviet past remains the key example of historical contention that still has not been fully addressed. There is no consensus regarding this issue. Parts of society along with right-wing parties perceive the Soviet past as an occupation and commemorate 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."

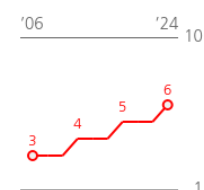
As a result, there are often tensions over symbols and historical memory. In April 2022, in the wake of Russia's full-scale invasion of Ukraine, the Moldovan authorities banned the use of the St. George ribbon in public spaces (considering it a symbol inciting war). This received a very negative reaction not only from pro-Russian parties but also from pro-Russian citizens, who associate the symbol with the Red Army's victory over Nazi Germany. A significant number of them considered the ban a provocation in the context of the upcoming Victory Day celebrations (9 May).

In recent years, ruling pro-Western (or nominally pro-Western) forces have taken a series of measures to commemorate the victims of the communist regime. In July 2018, they adopted a package of social services for victims of political repression. In 2019, the government declared August 23 a Day of Remembrance for the Victims of All Totalitarian and Authoritarian Regimes. As of 2019, rehabilitated victims of communist repression receive a monthly allowance of MDL 500 (approximately €25), up from the previous (paid since 2018) 100 leu (€5). In 2022, in accordance with a government decision, 18 people who had their property confiscated during the communist period received paid compensation. Overall, toward the rehabilitation of victims of political repression, the Moldovan budget allocated MDL 6.25 million (approximately €302,000) in 2022.

Increasing attention is also being paid to Moldovan veterans of the 1992 Transnistrian War, which was largely ignored by the authorities. There is no consensus: right-wing forces consider them patriots, while pro-Russian groups tend to believe they represent the pro-Romanian nationalists ruling the country at the time. The Chişinău parliament declared 2022 (the 30th anniversary of the outbreak of the conflict) the "year of gratitude" for the "defenders of Moldova's independence and territorial integrity." In March 2022, parliament also decided that combatants (or their descendants) should receive financial assistance of MDL 2,500 (approximately €120) annually.

Reconciliation

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10

17 | International Cooperation

The development plans Moldova pursues are enshrined in a number of strategies and documents, including its Association Agreement with the EU.

Net Official Development Assistance (ODA) began to increase dramatically after the oligarch Vlad Plahotniuc was removed from power in 2019. In 2017, net ODA per capita was only \$88 (in current \$). In 2019, it rose to \$128 and, in 2020, reached almost \$200. The European Union, EU member states, European financial institutions and the United States are the key donors of financial and technical assistance. In recent years, the increase in external assistance has occurred both because of growing confidence in the Moldovan authorities (particularly evident after the PAS took power in 2021) and the many challenges the new authorities are facing. In 2022 alone, Chişinău received some €671 million from its development partners (€422.9 million more than was expected at the end of 2021). These funds were used primarily to cope with the energy crisis, for example, by financing the gas bill subsidy program for residents. The foreign funds have also allowed Moldova to balance a budget burdened by the considerable expense of aid for Ukrainian refugees (since the start of the war, Moldova has hosted around 100,000 Ukrainians, that is, around 4% of its population). Development aid also finances ongoing infrastructure investments (including roads and energy).

The Moldovan authorities' credibility increased dramatically after the PAS government (backed by President Maia Sandu) came to power in August 2021. The current administration enjoys the trust of Western partners, which is reflected in the scale of financial and technical assistance provided to Moldova. In 2022 alone, the country has received some €671 million from its development partners. The government also received a €300 million loan from the EBRD to purchase gas essential for surviving the energy crisis. This support has continued into 2023. In January 2023, the European Commission announced an increase in macro-financial assistance for the Republic of Moldova by up to €145 million (this new assistance will support the economy and energy security of the Republic of Moldova).

There have been cases in the past when the European Union withheld financial assistance to Chişinău due to a lack of confidence in the authorities. This happened, for example, after the Socialists overthrew the government of Maia Sandu in late 2019. Deteriorating relations between Chişinău and its Western partners, as well as the questionable credibility of the ruling Socialists, led to the termination of a macro-financial support program resumed just a few months earlier, which resulted in the non-payment of the last installment (€40 million out of €100 million).

The current government is committed to fulfilling its obligations under international treaties and cooperates with institutions that monitor their fulfillment. This not only applies to the European Union but also to Moldova's obligations with respect to the climate agreement, among others. However, Moldova's ability to effectively manage financial support remains a problem due to staff shortages and the inexperience of many officials.

Effective use of support

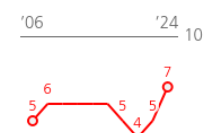
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Credibility

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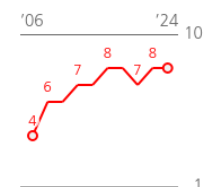
After the change of power in 2021, Chişinău's relations with its closest neighbors – Romania and Ukraine – as well as its other partners – the European Union (including individual member states) and the United States – improved dramatically. Bucharest provided substantial support to Moldova during the 2022 Russian-inflicted energy crisis and assisted Moldova with the influx of refugees from Ukraine. At the political level, one of the key events was the first-ever joint meeting of the parliaments of Moldova and Romania, held in Chişinău on June 18, 2022. Bucharest also remains Chişinău's key advocate in the European Union and regularly draws the international community's attention to the need to support Moldova since it is threatened by Russia's aggressive actions.

Chişinău also takes an unequivocally pro-Ukrainian position in Russia's war against Ukraine. As recently as August 2021, President Sandu joined the Crimean Platform. After the start of the full-scale Russian invasion of Ukraine, Chişinău strongly condemned Russian actions. For some time, however, relations with Kyiv were negatively affected by the fact that Moldova did not join the sanctions against Russia (for economic reasons and because of its constitutional neutrality). Ukraine was also critical of Moldova's application to join the European Union (after the authorities in Kyiv did so). In the long run, however, these events have not had a critical impact on bilateral relations, which are now the best in years.

Moldova's relations with the European Union are excellent, as evidenced by the fact that the country was granted EU candidate status in June 2022. On the other side, Chişinău's pro-Western and pro-Ukrainian policies have translated into very bad relations with Russia, which the Moldovan authorities see as a serious threat to the country. Since the outbreak of the war with Ukraine, Russian politicians have more or less directly threatened the authorities in Chişinău, warning them of the unpredictable consequences of their current policies and staging mass protests. Consequently, there is currently a wide-ranging discussion in Moldova about the wisdom of remaining a member of the CIS.

Regional cooperation

8



Strategic Outlook

While currently facing its greatest opportunity in years – perhaps since the beginning of independence – to structurally rebuild and repair, Moldova is also facing its most serious challenges since the 1990s. The deteriorating economic situation of Moldovans – mainly due to rising energy prices and massive inflation at over 30% – the energy crisis leading to electricity shortages, insecurity due to the ongoing war in Ukraine and the constant threats from Russia, are causing concern, increasing social discontent and contributing to a gradual decline in the popularity of the current, pro-Western authorities. The PAS Party, which received more than 50% support in the July 2021 parliamentary elections, had a popularity rate of only 20% to 25% at the beginning of 2023.

Capitalizing on this discontent are pro-Russian groups such as the opposition ȘOR Party, which has organized multiple anti-government protests since the second half of 2022. The party is led by Ilan Șor, a politician and entrepreneur who fled the country in 2019 following the oligarch Vlad Plahotniuc's removal from power. Șor is accused of complicity in the theft of \$1 billion from the Moldovan banking sector in 2014. In 2017, he was sentenced by a non-final judgment to seven and a half years' imprisonment for fraud and money-laundering related to the scandal. After fleeing abroad, he settled in Israel but nevertheless continues to be a member of the Moldovan parliament.

In order to address all these crises, Moldova requires consistent, substantial support from its Western partners. This entails significant financial assistance, for instance, to mitigate expenses associated with skyrocketing fuel prices – particularly gas. Moreover, expert support and political backing are also necessary. Moldova, a country over which Russian missiles flew multiple times in 2022 due to Russia's war with Ukraine, also relies on assistance to modernize its army rapidly and efficiently. Despite being very small, Moldova's armed forces suffer from severe underfunding, with less than 0.5% of GDP allocated to them in recent years. Furthermore, the Moldovan authorities must prioritize countering disinformation, which is especially crucial given Russia's destabilizing activities in the country.

Russia will remain Moldova's key external threat. Despite its involvement in the war with Ukraine, it still seeks to destabilize the country and remove the pro-European forces from power. However, the conduct and outcome of the Russian-Ukrainian war will largely determine Russia's ability to influence the situation in Moldova. At the same time, the possible failure of Russian plans for Ukraine will create a historic opportunity for Chișinău to solve the problem of Transnistrian separatism. The region – deprived of Moscow's support – will become much more open to a settlement with the Moldovan authorities.