

Moldova¹

Status Index (Democracy: 5.40 / Market economy: 4.71)		5.06	Management Index		3.50
HDI	0.671		Population	4.2 m	
GDP p. c. (\$, PPP)	1,510		Population growth¹	0.3%	
Unemployment rate	7.9% (2003 est.)		Women in Parliament	15.8%	
UN Education Index	0.85		Poverty²	63.7 (2001)	
			Gini Index	36.9 (2002)	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).					

A. Executive summary

In Moldova, nation and state building, the third phase of post-communist transition, sapped most of the political energy and societal mobilization for most of the 1990s. Despite various fundamental challenges to the new state, such as the issues of reunification with Romania and the separation of the Dnjestr Republic, the formal institutions of democracy were quickly established. Lack of legitimacy, however, has turned Moldova into a weak state with an increasing tendency toward authoritarianism since the Communist Party returned to power in 2001 by popular vote. Some of the few advantages from the communist period, such as education and health care, have been squandered. Moldova has become a well-institutionalized, but essentially weak state.

Economic transition was not a major part of the political agenda before the late 1990s. By that time, most of the populace had suffered tremendously from the transition and had come to prefer the certainties of minimal communist subsistence to comprehensive economic-policy reforms in what has become the poorest country in Europe. The gap between a politico-economic elite in a captured state and the impoverished mass of the population is rapidly increasing. Moldovans seem to have

¹ Most sections of the report refer to the right bank of the Dnjestr River only and exclude the territories under the effective authority of the unrecognised secessionist Dnjestr Republic. The existence of the secessionist entity is taken into account for issues such as stateness, but its political and economic development is not (if only for lack of statistical data). None of the relevant transformation policies by the Moldovan authorities in Chisinau has any impact in the Dnjestr Republic and statistical data generally exclude these territories.

given up on Moldova and have migrated in unusually high numbers-estimated at around half of the productive population. Mass remittances from migrants keep the state afloat, but the economy is increasingly based on subsistence, consumption and informal economy rather than production and reform.

Although the government takes recourse to repressive measures and obstruction of political and civil freedoms, relations between political opponents are remarkably civilized. It seems the current regime has succeeded in gaining the trust of the general populace by responding to its existential reform anxieties by juggling external pressures and claims from Russia, the European Union and the international financial institutions, while usurping popular agendas such as the strategy for European integration.

The return to power of an unreformed Communist Party in early 2001 has had a notable negative effect on democratic development in Moldova. The effects have been partly hidden by the unchallenged political dominance of the new regime and the fragmented weakness of the opposition. The economy is highly dependent both on energy resources and markets to the east and from investment, migrant remittances and assistance from the West. Rather than alleviating the pressure from the labor market, the massive out flux of labor caused by migration and human trafficking has upset the socioeconomic infrastructure, further reduced competitive production and consolidated patterns of consumption based on migrant remittances.

In view of the widespread impoverishment, the Dnjestr stalemate, rampant clientelism, political authoritarianism and state-capture, the level of actual political extremism and violence is relatively low in Moldova. The extremist and potentially violent actors of the past have been contained, marginalized or satisfied. A scenario similar to what happened in Ukraine is unlikely to happen in the March 2005 elections, but a medium-term, positive change in the Ukraine would overstrain the Moldovan communists' strategy of containment and accommodation. In addition, Romanian national mobilization might reawaken fears among Russophone communities and thus break up the fragile edifice of a Moldovan state and nation. A recurrence of ethnic violence might be the result.

B. History and characteristics of transformation

Two interlinked, key developments set Moldova's transformation process apart from otherwise comparable countries in the Western CIS. In the early phase of mobilization and transformation, the future of a Moldovan state and/or the existence of an ethnic or civic Moldovan nation were hotly disputed. Initially, the dominant elite factions favored "reunification" with Romania and denied the existence of a

Moldovan nation. From their perspective, a political and economic transformation process beyond the dismemberment of communist institutions would be counterproductive. Overall, the issues of forming a nation-state absorbed almost all political energies until early 1994 and resulted in the postponement of economic reforms in particular. The delay and partial derailing of the transformation process was seriously aggravated by the reactive nationalism of Russophone minorities in the eastern part of Moldova.

Since a bout of violence in 1991-1992, the territory on the left bank of the Dnjestr River has been, de facto, a non-recognized state beyond the sovereign authority of the Moldovan government institutions in Chisinau. Since then, unproductive negotiations on the future status of this so-called Dnjestr Republic (PMR) within a Moldovan (con)federation have induced successive Moldovan governments to bent over backwards to accommodate Moscow as the key backer of the PMR-regime in Tiraspol, thus adding to Moldova's political and economic dependency, while putting constraints on any pro-European reform endeavors. The on-going debate on a reorganization of the state structure to accommodate the PMR is by now a far more serious threat to the stateness of Moldova than any debates concerning the Romanian-ness of the Moldovan nation and the idea of state reunification. Over the past ten years, the existence of the Dnjestr Republic and the burden of the stalemate have contributed substantially to the fragility of legitimacy of the Moldovan state and the weakness of the state institutions' authority. Over the years, moreover, the Dnjestr Republic has become a black hole of the global economy, a hotspot of organized crime, trafficking and bootlegging. The conflict was originally couched in terms of ethnic tensions, then propelled by economic fears of comparatively well-off industrial standing coupled with strong militaristic underpinnings. This rhetoric has been substituted by Soviet nostalgia, anti-reformism and economic interests in the Dnjestr Republic and in neighboring countries.

The relatively promising start of economic transformation in Moldova in the early 1990s was due to certain economic and trade potential, basic legal foundations of new democratic and economic institutions, and the innovation of governance practices and foreign relations. The controversies over state- and nationhood soon put reforms on the backburner. By the time the electorate made economic considerations a top priority in the 1998 parliamentary elections, the window of opportunity had closed. Moldova's total dependency on Russian markets and energy resources as well as the absence of natural resources or competitive agricultural and industrial products for Western markets resulted in a structural socioeconomic crisis. The absence of a strong pro-reform elite, general socioeconomic malaise (even without the hardships of actual reform) and the erosion of public trust in economic reforms resulted in a conservative backlash. In 2001, the Communist Party was voted back into power with an absolute majority in parliament. Over the past few years, hundreds of thousands of

Moldovan workers have left the country as legal or illegal migrants or victims of human trafficking, signifying the end of reform prospects. The economy has been increasingly reduced to derelict state-owned industrial enterprises, organized crime and subsistence farming. Most families rely on remittances from migrants to avert poverty, whereas the state's power in directing economic processes is seriously handicapped by illegal flows of labor and capital as well as by state capture.

C. Assessment

1. Democracy

1.1. Stateness

A distinct part of the territory is effectively and absolutely beyond the sovereign authority of the Moldovan state institutions. This area is the left bank of the Dnjestr river and the city of Bender on the right bank. The situation has not changed over the past 13 years. Within the remaining parts of the formal state territory the monopoly on the use of force is well established with the caveat that the state is apparent unwilling or unable to waylay criminal organizations. As a consequence, these organizations partly confront the state, but partly also strive to capture state institutions.

The current Moldovan state is essentially based on a civic concept of the nation (with ethnic overtones) and a liberal regime of minority rights. Even nationalists favoring re-unification with Romania are by now less likely to deny citizens' rights to non-ethnic Moldovans, although they would generally tend to cede the left-bank territories in case of re-unification, which is no longer the professed long-term objective of the Popular front successor parties. Conversely, in some domestic issues the state authorities are inclined to discriminate against pro-Romanian groups, such as the Bessarabian Orthodox Church or the teaching of Romanian history, while favoring pro-Moldovan or pro-Russian positions. This latter position includes the teaching of Moldovan history or the introduction of Russian as a compulsory subject in elementary school and a language of inter-ethnic communication. Religious dogmas play no role whatsoever in the functioning and legitimacy of the state. The state order is secular, albeit no longer atheistic.

A full set of administrative institutions exists, largely as a legacy from the Soviet regime. Again, the size of the shadow economy and the fact that Moldovan state institutions have been dismantled or usurped in the Dnjestr Republic qualify this statement. Thus, differentiated institutions in the full range of policy fields exist, but

the actual extracting and allocative power of the weak state is limited.

1.2. Political participation

OSCE (Organization for Security and Cooperation in Europe) observer missions have generally accepted the post-communist parliamentary, presidential and local elections in Moldova as “free and fair.” A certain degree of unfair competition for media coverage and the instrumentalization of official positions and resources for electoral campaigning, however, has been a common trait of most elections. This tendency has become markedly stronger since the Communist Party came to power in 2001. In 2000, the electoral law was amended, raising the hurdles for the opposition parties by increasing the 6% hurdle to 9% for two-party alliances, to 12% for multiparty alliances and 3% for independent candidates. During the local and regional in 2003 reports about police raids, arrests of opposition candidates and law suits against opposition parties and media outlets increased. Nevertheless, independent surveys tend to confirm that thus far the popularity of the president and the ruling party are more or less in line with the outcome of the elections. President Voronin won his mandate in April 2001 in parliament after the Communist Party of Moldova (PCM) had garnered 50% of the vote, or 71 of 101 seats, in February 2001.

Although the Communists were able to preserve their large influence in the parliamentary elections of March 2005, they lost 15 out of 71 mandates in 2001, with only 46.1% in 2005 compared with 50.1% in 2001. The final results of the parliamentary elections illustrate the stagnation of the votes cast for the CDPP. They received 9.7% or 11 mandates, compared with 8.2% in 2001. It also shows a crystallization of a centrist electorate, which voted for the Democratic Moldova Electoral Bloc. They received 28.4% or 34 mandates).

For Moldovans living on the left bank of the Dnjestr, voting in national elections is virtually impossible on the left bank and requires a trip to special voting stations on the right bank, an opportunity 10.000 Moldovans used in the 2005 elections. Official local elections have not been held for more then ten years. Even without OSCE monitoring, the various elections organized by the secessionist regime have generally been rated “not free and not fair.”

Moldova ranks high in assessments of its effective power to govern. Whereas the military is not a factor of any political weight in Moldova, the business community and the nomenclature constitute veto powers to some extent. The current communist administration thrives on an implicit consent not to interfere extensively with the massive trafficking and other illegal economic activities and organized crime. The largest impact of influence on the president’s administration has the ‘big-tax-payers

club,' a specific kind of group of oligarchs, made up from selected foreign investors, natural monopolists and exporters/importers from East and West. Moldova's TI rank for 2004 is 112th of 146 (score 2.3), making Moldova the most corrupted country in Europe by TI standards. The most recent GRECO report was equally devastating in its conclusions.

The communist regime, which has been in power since 2001, has fundamentally obstructed the activity of the established civil-society and party organizations. Complaints about interference and repression have been quite frequent. As both civil society and party activities in Moldova are to a large extent funded top-down or initiated by international counterparts, the scarcity of such organized activities per se is not a measure of political repression. Some think tanks and advocacy NGOs that are critical of the government are allowed to function and use the rights guaranteed by the constitution. In particular, the more radical pro-Romanian groupings and parties are subject to various forms of harassment and obstruction, as demonstrated by their recurring protests against organizations such as the Council of Europe.

As the Freedom House rating indicates, Moldova has a bad record; freedom of the media is rated 4.75 for 2003. As reported by the Center for Independent Journalism, most newspapers have either become dependent on state subsidies or have turned into tabloids. Serious critical reporting is largely limited to a handful of major newspapers. State TV and radio still predominate and have been highly controversial recently due to politicization and journalists' protests. Teleradio Moldova remains the main source of information for most of the populace and the only outlet with nationwide coverage. Overall, serious cases of massive and direct political interference and violations of the freedom of expression and freedom of the media are rare. The mass protests against the pro-Russian legislation in 2002 and 2004, for instance, were all but banned from official media. Nevertheless, in an isolated country with a populace socialized by decades of political propaganda, a substantial distortion of realities and a manipulative censoring of domestic and international realities occur. Due to a selective adoption of recommendations of the Council of Europe, the current law on public broadcasts allowed the CPM to create on its own supervisory bodies to the former state TV and radio, which only strengthened its political weight and intolerance. Private initiatives to finance alternative TV with national coverage were discouraged by licensing bodies such as the National Council for Broadcasting.

1.3. Rule of law

The separation of powers is included in the Moldovan Constitution and the corresponding differentiated institutional and procedural set-up exists. Since the 2001 elections the Communist Party has a constitutional majority in Parliament. Several

factors have severely undermined democratic principles in practice, including substantial inclinations within the ruling party to subordinate the separation of powers to vested interests and party politics. Objections to government policies by the judiciary and constitutional court are somewhat of an exception. The fact that they do occur, however, indicates that the separation of powers and the independence of the judiciary have not been abandoned completely.

The formal and informal monopoly position of the communist executive has encroached upon the prerogatives of the parliament. The domineering Communist faction and the stand-off in actual politics have effectively eliminated the democratic function of parliament. When checks and balances are practiced, if at all, they emerge from international pressure and conditionality rather than by domestic powers. The installation of an internationally instigated “round table” for dialogue between government and opposition in 2002 acknowledges the undermining of actual democracy.

The judiciary is institutionally differentiated and formally independent. In practice, it functioning is on all levels severely hampered by political interference and bias as well as by corruption. The rare cases of court rulings against the communist authorities point to some residue of professional ethics or intra-party controversies.

Legally, penalties for elected politicians, office-holders and public servants do exist. The president, however, has employed his competencies to block nomination of judges by the Superior council of magistrates (SCM) and replaced them with individuals subservient to his party. Thus, separation of powers is still a fragile instrument within the existing institutional format. The immunity granted to a wide range of elected office-holders and other government officials, however, severely inhibits even the formal options to bring cases of corruption to court. Conflicts of interest are primarily used as political instruments. The authorities are taking effective steps to squelch any potential support of the opposition from the business community, and the Department Against Organized Crime (DAOC) is a tool of penalizing the ‘unfriendly’ links with the ruling party’s contenders. As Moldova’s TI ranking indicates, administrative practice and political reality are quite different. Thus, corrupt officeholders are not prosecuted systematically and adequately, but incidentally either on the basis of intra-party and personal loyalties or in reaction to adverse publicity. Some court cases strongly indicate that corruption charges are instrumentalized and initiated by the government in order to discredit opponent and to oust disloyal functionaries.

As previous conclusions concerning the political instrumentalization of the judiciary and widespread corruption indicate, the rule of law – legal guarantees and juridical redress for violations of civil liberties – are not assured. Actual political repression

and civil-rights violations are quite limited with the notable exception of the Dnjestr Republic. Redress for known violations of civil and human rights, however, is virtually non-existent. One typical case concerned a government attempt in 2002 to have parliamentary immunity of some particularly outspoken opposition leaders dropped so that criminal charges could be filed against them. Wiretapping political opponents is reportedly widespread practice. The most recent reform of the judiciary, which was adopted in 2002 and implemented on May 8, 2003, aimed at streamlining the old structure of courts into a three-level system. This structure includes courts of first instance, six courts of appeal and a Supreme Court of Justice.

1.4. Stability of democratic institutions

The performance of the democratic and administrative institutions of Moldova is barred not so much by instability, but rather by a lack of resources, state capture by vested interests and (consequently) the lack of political will to tackle the key problems of the populace at large. Since 2001, a course toward installation of a strong ‘vertical power’ took place in Moldova. The scope of the reform was to consolidate its influence on local and district administrations and, to a certain extent, to amalgamate decentralized public services by charging local authorities with the mission to be responsible for all services, including those of the central government.

The key problem of acceptance of institutions in Moldova is one of state capture and monopoly rather than veto players. The risk of a reversal of institutional democratization seems remote in Moldova, but the encroaching of dominant political players and their undermining of the actual functioning of democratic institutions is political reality. In the framework of the EU European Neighborhood Policy, Moldovan authorities committed themselves to adapt their legal system to the EU norms and values, i.e. rule of law, public participation and good governance standards. The forthcoming three years will be decisive in proving that commitments are underpinned by real responsibilities shared by the political actors and state officials. Regular assessments of progress have been carried out and will constitute the main task of the recently appointed EU Representative to Moldova.

1.5. Political and social integration

Electoral rules have “artificially” reduced the effective number of parties. There is a 6% hurdle for party and 9% or 12% for bi- and multi-party alliances. Voter volatility used to be high, but as predicted, the Communist Party won a landslide victory in the 2001 elections. They were still able to muster a solid, although reduced majority in the next elections on March 6, 2005. The degree of polarization is high on both axes

of strategic orientation—economic reform and nation/state building. Most parties have shallow roots in society and tend to represent the political ambitions and controversies of individual politicians or groups. In many respects, political parties or alliances were created, fused and split up only to comply with the ambitions and agendas of individual politicians.

With such polarization on both axes of the political landscape, pragmatic cooperation and consensus building have proven extremely difficult. The creation of a civil-society round table, moreover, indicates that normal democratic mechanisms of mediation between society and the state have proven ineffective. The fragmentation of the party system in combination with the high threshold has resulted in a limited number of three parties in the current parliament and 1.79 on the Laakso/Taagepera index.

The party landscape has a high degree of detachment from the socioeconomic interests of the populace at large and rather represents the vested interests of privileged groups. The state rather tends to penetrate and aim at controlling civil society and NGOs.

As an IPP survey from November 2004 indicates, trust in political institutions continues to be low: 25% for political parties, 31% for the judiciary, 42% for parliament, 47% for the government and 56% for the president, compared with 79% for the Church. Similarly, ratings for the economic and social policy of the government are devastating and most respondents assume that corruption has become more widespread since 2001. Protests typically do not question the democratic institutions as such.

Social, non-political self-organization and self-help are mainly concentrated on communal and family structures of economic subsistence. A small elite, almost exclusively in the capital of Chisinau, has produced social capital by teaming up with relevant international organizations. Typical for a USSR successor state, attitudes and concepts concerning social organization are focused on the state, irrespective of the ability and willingness of the state to live up to these expectations. The issue here is not a low level of trust among the population, but rather a fragmentation of society and a dominance of the state. More far-reaching forms of social organization are limited to a rudimentary elite and mobilize the populace rather on an ad-hoc basis. Several thousand NGOs are registered, but recent changes in legislation and registration procedures are generally perceived as restrictive. Yet, some modest resources are coming available for a rapidly growing number of NGOs that are spreading from the capital city to the regional level. However, low level of trust increases social anomy and inclination to leave the country. State censorship of the electronic mass media alters the visibility of the opposition views and alternative

policy options as such.

2. Market economy

2.1. Level of socioeconomic development

Social exclusion is extensive and in the process of becoming socially ingrained. The relative advantages of the egalitarian Soviet system, such as access to education and health care, are rapidly eroding and a new underclass is in the making. Even official unemployment is close to 30% and an estimated 80% of the Moldovans live below the nationally defined poverty line. Thus, social exclusion is largely driven by poverty and a sharp increase in economic inequality. A large share of the population depends on subsistence farming and migrant remittances. Gender and ethnicity are no strong determinants of social exclusion with the possible exception of the Roma community as a victim of official and popular discrimination.

2.2. Organization of the market and competition

Moldova is characterized by a combination of state interventionism and wild capitalism typical for a weak post-communist state in transition. The percentage of state-defined prices is still relatively high, but so are the share of the gray economy, which is estimated at 30-70% of GDP, and the volume of untaxed migrant remittances. Thus, the state functions of economic regulation and redistribution are strictly limited to some strategic sectors and some basic subsistence guarantees for the populace.

The symbiosis of the state and vested economic interests seriously reduces the capabilities and political will to counter monopolies and oligopolies. Only the absence of valuable natural resources and the size of the country have prevented the emergence of major oligarchs.

Moldova became a WTO member in 2001 and the economy is export-oriented – about 50% of GDP. Most prices were liberalized and the state trade monopoly abolished early on. Moldova is selectively integrated in the world market due to state regulation, illegal trade flows and administrative non-tariff barriers.

The National Bank's supervision of private banks is shallow. The mere size of the shadow economy indicates that the Moldovan banking sector may no longer be state owned, but it certainly plays a dubious role in economic transition. According to recent estimates, the annual sum of untaxed capital channeled through private banks is higher than the Moldovan state budget. Nevertheless, some recent regulatory measures in the framework of the National Bank's macroeconomic stability have

improved the Moldovan banking system. However, the amount of lending to private enterprises is low and the danger of politically motivated credits to ailing enterprises by public banks is increasing, although the volume of bad credits has declined overall.

2.3. Currency and price stability

Consumer price inflation has been volatile rather than exceptionally high. The exchange rate of the lei to the U.S. dollar has been quite stable, losing 12% from 2000 to 2003. As Moldova's tug-of-war with the IFIs indicates, foreign-exchange policy and macroeconomic stability are politically instrumentalized rather than being part of a comprehensive reform strategy. After the dramatic 16% inflation of 2003, the government and the national bank made price stability a priority concern which has gotten some positive results.

The government has set the objective of reducing the budget deficit and has achieved some results thanks to continuous high GDP growth in recent years despite tax reductions. Subsequent increases in public wages tended to cancel out the positive effects.

2.4. Private property

Although law guarantees property rights, some high-profile cases of government intervention in the business sector have confirmed investors' suspicions. Land is fully tradable. Foreign direct investment (FDI) has fallen dramatically in recent years, from an estimated 9.9% in 2000 to 2.5% in 2003. Within the Communist Party, moreover, an orthodox faction favoring more state interventionism and possibly re-nationalization of enterprises still hold key positions in the political elite.

Recent legislation has somewhat improved the position of private companies. European Bank for Reconstruction and Development (EBRD) ratings of small and large scale privatization are low and the data on the private sector share in GDP are cause for concern and disbelief: only 50% in 2000, 2001, 2002, 2003 and 2004. Privatization of larger state enterprises in agriculture and industry is stagnating.

2.5. Welfare regime

Social safety has been one of the main victims of Moldova's flawed transition process, with over 80% of the population living below the poverty line and in total

dependency on migrant remittances for subsistence. Expenditures on health and education account for 8-9% of GDP, but real GDP has not yet reached half the level of 1991. The existing system of social safety has been decline. Thus far, the 2004 Economic Growth and Poverty Reduction Strategy exists primarily on paper, as the continuous outflow of population (including illegal migration and trafficking) indicates.

The society retains elements of heterogeneity. There are a number of institutions to compensate for gross social differences. Women have significant access to higher education, public office, etc. Increasingly, however, social status and economic resources become a factor in access to education and jobs. As a result of lack of financial resources, the role of the state in providing equal access to public services is declining.

2.6. Economic performance

Some basic economic indicators in 2003 seem to suggest a relatively positive trend for Moldova's economy: inflation of 8% in 2004, 30% economic growth in the past four years, a 13.6% increase in industrial production and a 12.2% increase in exports. This is offset by the weakness of the state and most of all by the absence of a solid foundation. The share of migrant remittances in GDP is excessive and highly defective: 450 million euro according to conservative official estimates and three times as high according to unofficial counts. At the same time, FDI is decreasing and in 2000-2003 the increase in consumptive imports was far greater than the exports at 75.7% vs. 49.2%. Even with the necessary political will, Moldova as a weak state is hardly in a position to implement the policies necessary to attract investment and restore the populace's confidence in the national economy.

2.7. Sustainability

Moldova has to deal with severe damage from the communist period, when the productivity of Moldovan agriculture was achieved with the massive and uncontrolled use of pesticides on the fields. The heavy industrial factories, which were established in the 1920s and 1930s mainly on the left bank, were equally damaging for the environment. The green movement played was slightly influential in the late 1980s, but ecological concerns have long lost their mobilizing force, both on macro and microeconomic levels, in a country dominated by subsistence economy.

The Soviet time infrastructure for elementary, secondary and higher education as well as research and development is still institutionally in place. Apart from the fact that

private schools and universities are competing with state education, an absolute low in state funding and external funding have reduced many research and higher-education institutions to a nominal existence. Human capital is still available, but brain drain is the dominant trend among the younger generation.

3. Management

3.1. Level of difficulty

A decade has been lost in the transition period, and the current structural constraints on the government are massive. Moldova's management faces a number of serious structural constraints with origins or root causes that reach far beyond the responsibility of the current government and cannot be remedied easily in the short or medium term. Three key constraints are directly or indirectly linked to the end of the Soviet Union. Firstly, there is the loss of the traditional Soviet markets for Moldovan exports and difficulties in reorienting the economy to other markets. Secondly, the intractable Dnjestr conflict has turned from a regional and ethnic conflict to a consolidated failed state and a source of organized crime. Thirdly, the suppressed issue of the separate nation and statehood of Moldova vis-à-vis Romania has reemerged. The predominance of issues of nation and state building in the crucial first phase of post-communist transition resulted in much valuable time lost and a delay in democratic and economic transformation.

Each of these "perennial issues" absorbs enormous political energy, undermines the legitimacy and strength of the state authorities and can easily be used as an excuse not to tackle key reform issues. As part of the above chain reaction, the best-educated younger generations have left the country in unknown numbers to go to the other post-communist states, thus depriving the state of crucial human capital for governance and reform.

Like in most post-communist societies, traditions of civil society are weak and expectations from state and government are high. The number of effective NGOs is small and most of them are fully dependent on international support and funding. Trust in political institutions is low. Civil-society traditions are generally weak in the European post-Soviet republics. Because of the Moldova-Romania nexus and the corresponding concern of the Soviet authorities in Moscow, the repression of non-state organizations and the reduction of the scope for civil activities was particularly prominent.

Since independence, a substantial portion of civil mobilization was directed toward exclusivist ethnic issues – hardly appropriate to increase trust in institutions or

generate a moderating influence in society. Overall, the grass-root quality of NGOs in Moldova is doubtful; the international community more often than not serves as both sponsor and main client or addressee of the NGOs. Typically, most of the current politically relevant NGOs are highly dependent on international funding, most prominently by the Soros Foundation. Juridical and bureaucratic obstruction of NGO activities as well as their substitution and undermining by GONGOs (government-organized NGOs) are recent phenomena. The combination of Soviet and Moldovan traditions with NGO-unfriendly governments has resulted in a particularly weak civil society. The minute size of the societal and political elite exacerbates the problems of developing a civil-society separate from party-politics.

Moldovan society has a substantial share of ethnic minorities. According to the preliminary data of the most recent national census in October 2004, the total share of ethnic minorities has declined from 35% to 26%. The statistics do not include data on the population on the left bank, where a parallel, separate census has been conducted. The decline of ethnic minorities in Moldova is dictated by the low birth rate of the urban population, where most of the Russian-speakers live, and to a certain degree, by the emigration of some of the minorities to their original homelands, such as Russia, Bulgaria, and Ukraine.

Ethnic cleavages are only one dimension of the Dnjestr conflict. In a way, one might also refer to a Romanian-Moldovan ethnic split in the society of Moldova. The communist leaders see Romanian and Moldovan identities as conflicting and diverging identities, and this is a reflection of the Soviet nationalities-policy legacy. Typically, in the villages the issue is contained by customary structures of segregation and in the cities there is little ethnic tension in daily life. Not unlike in the Baltic States, ethnic conflict is a political meta-issue of nation and state building rather than a source of everyday tension and discrimination.

Ethnic cleavages are largely unrelated to socioeconomic disparities. Nevertheless, the impoverishment of the population – that has thus far not translated into violent mobilization – and the legacy of the violent potential of the once-ethnic Dnjestr conflict put serious constraints on the government's strategic options. Religious tensions are marginal in a secular state with a 98% Orthodox majority, although the Russian Orthodox Church receives some preferential treatment. Minor churches and sects are obstructed by government bureaucracy.

In the period under review, the ruling party twice attempted to redefine the policy on nation and state building by making Russian-language instruction mandatory in schools and by replacing the history curricula. Ethnic conflicts are potential and instrumental rather than real. The social differences define the main cleavages in society; social polarization, income-fragmentation, urban-rural divides, huge

variations in education, access to primary services and job opportunities are key factors in the weakness of the society of Moldova. Nevertheless, an eruption and escalation of violent conflict would undoubtedly result in ethnic mobilization and confrontation, and endanger the cohesion of the state. Currently, the level of violence is not exceptionally high, as the well-entrenched communist party dominates politics with a large constituency. Most key representatives of the current Smirnov separatist regime are people who never lived in the region before 1991; they are Russian citizens and previously served in the various secret service, counter-espionage or military units of the Russian Federation. No mobilized group or protest movement has a major impact on politics at the moment. Society is not even polarized along socioeconomic lines. The regime has been successful thus far in integrating various ethnic groups and social classes. The potential for conflict remains but high.

Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	2
System of government:	<i>Parliamentary</i>	Electoral system disproportionality:	7.9
		Latest parliamentary election:	06.03.2005
		Effective number of parties:	2.3
1. Head of State:	<i>Vladimir Voronin</i>		
Head of Government:	<i>Varsile Tarlev</i>	Parties in government:	1
Type of government:	<i>single party majority</i>		
		Number of ministries:	15
		Number of ministers:	18
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\frac{1}{2} \sum (v_i - p_i)^2$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

Despite the complicated structural conditions and external framework, it is fair to describe the reform policies of the communist government as eclectic and inconsistent at best. As far as a transition to a pluralist democracy and a market economy are concerned, long-term strategy thus far exists largely on paper. Economic and social issues were described in strategic terms by the Poverty Reduction Strategy, agreed on by the World Bank and the IMF and adopted by parliament in June 2004. An EU Action Plan supported by all three political factions was put into effect in January 2005. Conflicting messages concerning an orientation

toward Moscow and the CIS on the one hand, and the European Union and international financial institutions on the other indicate a lack of elementary policy prioritization, or even strong political and economic dependencies.

The government uses the political rhetoric of transition reforms without social costs. In political practice, some achievements in economic reform, such as in privatization, have been reversed. A gradual loss of human capital is accepted for the sake of avoiding unpopular measures. Evidently, the PCM was elected in 2001 on a ticket of status quo and non-reform as well as a protest vote against the impotence and corruption of the incumbent parties. The need to cooperate with the IFI has produced some reforms and prevented strategic backtracking, but no consistent and coherent policy has been formulated and implemented. The low rate of FDI and international assistance, the size of the black economy (including transfers from Moldovans abroad) as well as the massive outflow of labor indicate that trust in government policies is low and that the credibility of the emerging centrist opposition yet unproven. The absence of massive violence and catastrophes seems assured, but consistent macroeconomic policies (e.g. no re-nationalization) is not and neither are safeguards against poverty with 82% of the population living below the poverty line. This line is defined as \$4 per day.

In view of the limited resources, the degree of state capture by vested interests and the infighting between anti-reformers and moderate reforms within the ruling communist party, the drive for reforms largely comes from international organizations. Until now, the Moldovan regime has been quite successful in maintaining macroeconomic stability and economic growth, but this is at high costs in terms of sustainability and human resources.

The political leadership is extremely flexible, not to say opportunistic, in redefining its policy messages and stated objectives to accommodate domestic constellations and international pressure. Recognizing and acknowledging past mistakes is certainly not part of this routine. The basic drive of policy making is based on accommodation of incongruent political pressures from abroad (the Western international community and Russia) as well as vested domestic interests. Apart from the question to what extent Moldovan government reforms are directed toward democracy and market economy instead of political and economic status quo, the center often fails to implement its reforms. This is partly due to societal resistance or elite pressure groups. Reforms that do occur are apparently enacted under considerable international pressure and out of necessity rather than strategic vision.

3.3. Resource efficiency

The government uses only some resources efficiently. The costs of political instrumentalization, state capture and a status-quo policy are enormous.

Well-designed trade-offs between conflicting policy objectives are obstructed by the style of leadership based on the president's personality, the overall lack of state resources for the implementation of substantial policies and the opportunistic concept of politics. Large parts of state policy have been fragmented into fiefdoms. Government policy, driven by a stat-quo objective of staying in power, tends to prioritize basic subsistence for the populace unless "forced" by international pressure to act in other ways.

Large portions of the state are controlled by private groups and corruption is pervasive and omnipresent. Significant parts of policy making and resource distribution are based on particularistic and bureaucratic-hierarchic considerations. Most policy decisions of importance converge on the president. Due to varying pressures, the resultant policies are often erratic and not transparent.

3.4. Consensus-building

The political consensus on democracy and market-economy is fragile. Although the ruling communist party pays lip service to both objectives and although formal democratization and economic liberalization have been achieved, the consensus remains fragile and in need of external support/pressure. The ruling party often tempted to sacrifice the principles and procedures of democratic pluralism to party interests and conservative factions within the party regularly question market economy as a prime objective.

The reform-oriented opposition is too divided weak to be in a position to exclude or co-opt anti-democratic veto actors. Within the ruling party, the moderate reformist wing around President Voronin has managed to control the conservative wing in his party. In 2005, a sharp confrontation of the conservative and reformist wings of CPM may occur when the leader will attempt to change the name, symbols and the positioning of the party from extreme left to center, and from a Communist Party into a socialist or social democratic leftist movement. At the same time, the real veto powers, the business community, has captured the state rather than being captured or co-opted by the state.

Due to the political predominance of the communist party, there is not an urgent

necessity to manage political cleavages and prevent them from escalating. In order to placate the international community, the rulers have accepted some form of dialogue and mediation with the reform-oriented and the pro-Romanian opposition blocks. Conversely, cleavages with the real counter-elites in the Dnjestr Republic have escalated every now and then. Reducing existing divisions and resolving conflicts with Tiraspol would be beyond the capabilities of any regime in Chisinau and cannot be a criterion for management. If anything, the very weakness of the state in guaranteeing subsistence induces the populace to rely on social networks and clientelism. Civic engagement and social networks in a modern sense, however, are not stimulated in a meaningful way by the regime.

Correspondingly, the political leadership's suspicion and aversion against "uncontrolled" civil-society involvement in policy development is quite pronounced. In exceptional cases, such as the process of EU integration, selected NGOs are accepted as interlocutors because of the apparent lack of competence in this field within the communist administration. NGOs as civil society representatives are tolerated rather than involved in the policy process.

Evidently, the PCM as successor to the Communist Party of the Moldavian Soviet Socialist Republic (SSR) has no interest in revealing past injustices from the 1940-1990 period. The process of reconciliation and a quest for moral or legal justice stalled long ago. In fact, there are almost a dozen organizations that represent the victims of the former totalitarian regime in Moldova, such as the veterans of the Romanian Army, dissidents, etc.—to little effect. Thus, only minor civil-society efforts to open a dialogue between victims and perpetrators of the Soviet system or between ethnic groups continue. The state upholds the historical myths of the communist past, including negative stereotypes concerning the Romanian regime of the interwar period. Conversely, the pro-Romanian opposition is equally biased and uncompromising in its political instrumentalization of history and past injustices.

3.5. International cooperation

The Moldovan cooperates with bilateral and multilateral donors in the transformation process. For lack of an overarching reform strategy, the initiatives and concepts of international partners tend to drive reform activities, although incomplete or partial reforms tend to be counterproductive. On the other hand, ideological and tactical considerations of the government have prevented a systematic learning process from taking place. Moldova is torn between allegiance to the CIS and dependency on Russia and reliance on Western assistance and resources; as it faces increasing pressure from both sides it has become less predictable as a partner in recent years.

As the agenda of transformation to democracy and market economy is by no means unchallenged in Moldova, its image abroad is not that of a reliable and responsive partner. Especially the cooperation with the IMF and the fulfillment of the corresponding conditions has been eclectic. Moldova also failed to make the most of its gratuitous inclusion in the Stability Pact for South Eastern Europe in 2001. Having failed to meet the conditions, the new government also failed to engage as an active partner and present realistic proposals for co-operation and assistance.

There is a strong tendency to rate cooperation with international organizations as an asset of Moldova's international standing rather than use cooperation as an instrument to actually enhance the domestic reform process with external expertise and assistance that would reduce social costs. This was specifically the case in Moldova's policy vis-à-vis the European Union and the European Neighborhood Policy.

Cooperation with neighboring countries is a politically sensitive issue, whether it concerns Romania, Russia, or the Ukraine. The inability to choose between western and eastern dependencies makes it impossible for Moldova to reap the fruits of cooperation. The main goal of cooperation with IFIs and transition-relevant organizations would be to accelerate the reform process while avoiding social costs. So far the PCM regime has limited this engagement for the sake of power consolidation, and has tried instead to further its CIS integration.

In sum, Moldova is a passive and reluctant partner in most regional and international transition-related forms of cooperation. Policies of cooperation are eclectic and lacking in substance, such as the response to Romania's offer for cooperation in the energy field, the options for cooperation provided by the Stability Pact or the apparent need to cooperate with the Ukraine in the management of the eastern border. Due to its modest size and lack of practical experience, Moldova has lost many opportunities to build up partnerships on common issues like border control, protection of minorities and participation in regional networks or associations. However, as recent regional dynamics have improved, changes in Romania and Ukraine have also prompted rethinking of the format of cooperation with Moldova.

4. Trend of development

4.1. Democratic development

The return to power of an unreformed communist party in early 2001 has had a notable negative effect on democratic development in Moldova. The effects were

partly hidden by the unchallenged political dominance of the new regime and the fragmented weakness of the opposition. The conduct of the 2003 local elections was considered generally in line with international standards, but was not given the rating “free” by the ODIHR/OSCE monitoring mission for the first time in history of the Republic of Moldova. Increasing poverty and international pressure as well as the recent events in the Ukraine have increased tensions within the ruling party. It is expected that after the confirmation of the parliament the CPM will start negotiations for the creation of a new sort of government by including some of the opposition candidates.

The negative trend is demonstrated by the Freedom House indices: all four (elections, civil society, free media and governance) have declined from bad to worse since 2001.

4.2. Market economy development

Despite the substantial economic growth rates of recent years, social disparities and poverty are on the rise in Moldova, the poorest country in Europe. Rather than to alleviate the pressure from the labor market, the massive outflux of labor due to (il)legal migration and human trafficking has distraught socioeconomic infrastructure, further reduced competitive production and consolidated patterns of consumption based on migrant remittances.

A number of changes in the legal framework have been implemented with some positive effects, but the overall trend is dominated by the negative trend in the informal institutions of the economy: rampant corruption, administrative and other obstructions to the functioning of a market economy as well as the general weakness of the state in providing a reliable framework.

The economy is highly dependent both on energy resources and markets to the East and from investment, migrant remittances and assistance from the west. Semi-legal and illegal or criminal economic activities have increased dramatically and poverty has become even more widespread. Foreign investment is declining substantially.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003 est.	2004 proj.
Export growth in %	6.8	15.7	14.5	12.2	na
Import growth in %	29.8	9.3	16.1	20.5	na
Inflation in % (CPI)	18.4	6.3	4.4	15.8	8.0
Investment in % of GDP	23.9	23.3	22.7	na	na
Tax Revenue in % of GDP					
Unemployment in %	8.5	7.3	6.8	7.9	na
Budget deficit in % of GDP	-1.4	-0.3	-0.9	0.1	-0.7
Current account balance in billion \$	-0.121	-0.072	-0.060	-0.155	-0.160

Source: Freedom House; ENP Country Report 2003; EBRD Transition Report 2004

D. Strategic perspective

The future of Moldova is highly dependent on external actors and factors, such as short-term and medium-term developments in the Ukraine. The anti-reform regime in Moldova has a strong popular base that is not likely to be eroded by a gradual worsening of the domestic socioeconomic situation. However, noticeable improvements in the Ukraine might mobilize the populace to back the pro-reform, pro-European opposition.

The current regime has increasingly posed as champion of European integration and European-style reforms. In 2005, it will need to move quickly in order to maintain macroeconomic stability, achieve a better FDI rating, and improve its regulatory business framework, investment climate and democratic institutions – all of which are priorities within the EU Action Plan for Moldova (2004-2007).

Apart from poverty reduction, civil society programs and conditional development assistance, the international community, and the European Union in particular, would be well-advised to impose conditionality and transparency. Otherwise, no democratic, pro-market opposition will ever be able to create a platform and constituency vis-à-vis the communist regime. Although the present communist regime is insincere in its Europe-oriented commitments and rhetoric, this possible change of course would offer the international community and civil society a unique opportunity to apply pressure on the government to substantiate its promises and monitor its progress in reform.

Economically, Moldova should be pressured to use the opportunities for development

and regional cooperation that have been offered within the Stability Pact or with Romania in the energy sector. However, negative trends in criminal activity, and mass migration that allow remittances to keep this weak state afloat despite its failed transition, are likely to increase further. In addition to European measures against criminal activity, long-term solutions depend on the restoration of productive and competitive economic activity in Moldova and access to international markets.

The Dnjestr Republic is certainly a negative factor impacting many political and socioeconomic developments in Moldova, but it is not the root cause of all the deficits in managing the political and economic transition. Resolving the conflict is beyond the capabilities of the Chisinau authorities, in view of the backing and nature of the Tiraspol regime. Because the OSCE has utterly discredited its reputation for conflict management in this case, it is up to the United States and the European Union to apply sanctions on the Dnjestr regime and contribute to an enhancement of border controls all along the eastern border of Moldova, including the section along the Dnjestr Republic. Presumably, however, only a positive development in Ukraine followed in the medium term by a similar “second revolution” in Moldova would be able to unhinge the Tiraspol regime. Overall, Moldova seems to be a very typical case of delayed or derailed transformation with domestic and external factors combining to produce a worst-case scenario: a small country highly vulnerable to external influences, unprepared for substantive reforms, and effected by foreign occupation of a part of its territory.