

BTI 2012 | Moldova Country Report

Status Index	1-10	6.24	# 43 of 128	
Political Transformation	1-10	7.05	# 36 of 128	➔
Economic Transformation	1-10	5.43	# 67 of 128	↗
Management Index	1-10	5.39	# 53 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	3.6	HDI	0.649	GDP p.c.	\$	3110
Pop. growth ¹	% p.a.	-0.1	HDI rank of 187	111	Gini Index		38.0
Life expectancy	years	69	UN Education Index	0.716	Poverty ³	%	12.5
Urban population	%	41.2	Gender inequality ²	0.298	Aid per capita	\$	68.0

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

Executive Summary

The obstacles to any managed transformation in Moldova are massive: the global economic crisis, the decades lost in intra-state conflict and communist rule, the unresolved Dnjestr conflict and the structural havoc wrought by mass out-migration combined with resource-draining remittances. Consequently, any government's room for maneuver is strictly limited and the new pro-European coalition government merely accelerates reforms begun under its communist predecessor. It does so with more drive, sincerity and acumen. Conversely, even the communist regime that held power prior to the April – June 2009 elections became dependent on international and European assistance, and though it initiated many relevant reform trajectories it had difficulty implementing them. The new government has been wise in continuing these reforms without overstating the polarized atmosphere and without re-invoking destabilizing and distracting issues such as national identity and language. The main assets of the new government are its adherence to Europe and the influx of a younger, more competent generation of politicians and civil servants. Moldova's citizens, however, have only witnessed a brief and limited bout of political hope and mobilization during the crisis of April – June 2009. Much of the new government's credit has already been eroded by the constitutional dilemma of electing a new president that has produced three rounds of parliamentary elections, several rounds of presidential elections in parliament and one failed constitutional referendum within two years. This has been caused by the high threshold required for both the election of a president and for a constitutional amendment which would lower this threshold. The structural lack of public trust in political institutions and political leaders cannot be alleviated without miraculous improvements in the current economic and political crisis. On the other hand, politicians might have used the constitutional instruments available to their advantage, although neither undemocratic or unconstitutional solutions to the deadlock nor a resort to violence have emerged as a substantial alternative. To conclude, the real improvement was seen in freedom of expression and more activity in the combat of corruption.

History and Characteristics of Transformation

Two interlinked developments set Moldova's transformation process apart from otherwise comparable countries in the western CIS: Transnistrian separatism and out-migration. At the beginning of the transition period, 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 separate Moldovan nation. The issues of forming a nation-state absorbed almost all political energies until early 1994 and resulted in considerable polarization of the population and the postponement of economic reforms. In the following years, however, Moldova was often praised by international organizations for its quick and courageous economic reforms in comparison with some other post-Soviet states. The delay and partial derailing of Moldova's transformation process due to the lack of management skills on the part of the Moldovan elite was seriously aggravated by the territorial secession of Transnistria and Russia's overt support of the regime in Tiraspol. Two separate customs and tax regimes were established.

Since violence flared in 1991 and 1992, the territory on the left bank of the Dnjestr River has been, de facto, a non-recognized state beyond the sovereign authority of 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 bend over backwards to accommodate Moscow as the key backer of the PMR regime in Tiraspol, thus adding to Moldova's political and economic dependency on Russia and putting constraints on any pro-European reform endeavors. Over the past ten years, the existence of the Dnjestr Republic and the burden of the stalemate have substantially weakened the fragile legitimacy and authority of the Moldovan state. Over the years, moreover, the Dnjestr Republic has become a black hole in the global economy, a hotspot of organized crime, trafficking and bootlegging. Originally couched in terms of ethnic tensions, the conflict in the Dnjestr Republic was later propelled by economic fears of losing the region's comparatively high industrial standing. These fears were coupled with strong militaristic underpinnings. This rhetoric has been substituted by Soviet nostalgia, blatant Russian nationalism and anti-reformism.

Economic transformation in Moldova had a relatively promising start in the early 1990s thanks to the country's economic and trade potential, but 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. General socioeconomic malaise (even without the hardships of actual reform), the absence of a strong pro-reform elite, and the erosion of public trust in economic reforms resulted in a conservative backlash. In 2001, the Communist Party

(Nezavisimaya Moldova) led by President Vladimir Voronin was voted back into power with a constitutional majority. In 2005, the communists scored a victory again, but this time their coalition strategically included non-communist ministers in the government. Over the past decade, 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, remittance-based consumerism and subsistence farming. Most families relied on remittances from migrants to survive, 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. Until 2009 the Communist Party managed to control politics and large segments of economic power. These assets held together a party that encompasses old-school doctrinaire communists, affluent former nomenclature and a reform-oriented faction.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force remains firmly established on the right bank of the Dnjestr with the exception of the city of Bendery and several villages which are controlled by the Dnjestr Republic (PMR) regime. On the left bank of the Dnjestr, Moldova still preserves its de facto control over a strip of some small villages inhabited by Moldo-Romanian speakers around the Dubasari district. No progress has been made in restoring Chisinau's sovereignty over the rest of the left bank territories. The Dnjestr Republic (PMR), established in 1990, has become a de facto unrecognized statelet with its own monopoly on the use of force on the left bank. The Moldovan state and the Dnjestr Republic have, as relatively sovereign entities, prevented civil war and anarchy from emerging. The series of armed clashes from 1991 to 1992, often erroneously referred to as "civil war," and sometimes referred to as a "military implication" of Russia produced two weak states with enclaves for the mafia, clans or warlords that are beyond the state's reach. Some improvement is suggested by the electoral victories of the democratic opposition and the first indications of a firmer stance against the communist-era entanglement of political and economic power (which resulted in state capture and political leaders' involvement in shadowy economic businesses). However – with the exception of Transnistria – the state has not previously lost its control over the territory or population per se.

Civic and ethnic-based definitions of the Moldovan nation-state are in competition with each other in Moldova, although many Moldovans are unaware of the implicit contradiction this involves. The PMR, which does not recognize the Moldovan constitution and therefore rejects a civic-based concept of the nation, champions its own concept of the nation that gives preference to the Russian language. The strong trend in recent years among Moldovans to apply for a Romanian passport is no longer related to a rejection of the very concept of a Moldovan state but has a pragmatic rationale linked to Romania's EU accession. Some of the smaller parties

Question
Score

Monopoly on the
use of force

7

State identity

8

outside the parliament (and Ghimpu's Liberals in parliament) used to reject Moldova's separateness as a nation, but they have come around to accepting the permanence of the Moldovan state, despite their insistence on the Romanianness of the Moldovan language and nation. Both in the PMR and Moldova, a certain amount of propaganda for an ethnic-based concept of the nation (Russian patriotism and ethnic Moldovan respectively) demonstrates the current strained political situation. In Moldova proper, some intellectuals and part of the political establishment are inclined to use an ethnic understanding of the Moldovan nation to garner electoral support. The (abusive) deployment of notions of historical legitimacy and/or civic and ethnic concepts of the nation, however, is highly erratic even on the part of key politicians. The outcome of the 2009 and 2010 parliamentary elections suggests that the hardliners are losing out to pragmatists in the present coalition who focus on socioeconomic rather than identity issues. More aggressively, young Russian nationalists of the Proryv movement are eroding the PMR's multiethnic stance.

The state is secular and religious dogmas play no formal role whatsoever in the legislative, executive or judiciary branches. But symbolically many politicians prefer to associate themselves with the Orthodox Church in order to make electoral gains, and the church encourages this. The constitution provides for freedom of religion. The Moldovan Orthodox Church, though not a state religion, receives favored treatment from the government as a tributary to the Moscow patriarchate due to historical legacies. The government refrains from registering its citizens' religious beliefs. More than 95% are Orthodox and the vast majority of them identifies with the Moldovan Orthodox Church, which is subordinate to the Patriarch of Moscow. The conflict over the Bessarabian Orthodox Church of the Bucharest Patriarchate has thus subsided. The government of Moldova generally recognizes freedom of religion in practice, although it has continued to deny registration to some religious groups, especially Muslims.

No interference of religious dogmas

10

The state has a differentiated administrative structure throughout the country (again with the exception of the left bank territories, where the PMR regime has produced its own fully fledged administrative system). Institutions exist for the full range of policy fields – largely a legacy of the Soviet administrative system. The Moldovan state's actual extractive and allocative power, however, is rather weak, as demonstrated by uncontrolled criminal economic activities, out-migration and illegal cash flows. In the 2000s and especially in recent years, administrative reform has strengthened the actual power of the central authorities on the local level. The new government's program includes further administrative reforms in line with its European ambitions, and indicative of its awareness of existing deficits.

Basic administration

8

2 | Political Participation

Overall, general elections are held regularly at the national level with a secret ballot and universal suffrage. Election access for political parties of different orientations and constituencies is guaranteed, while the electoral threshold of 4% is in accordance with the Council of Europe Venice Commission standards. The three rounds of general elections in the reporting period differ greatly in democratic quality. In the wake of the April 2009 elections, oppositional parties claimed that the Communist Party resorted to various forms of obstruction, fraud and violence at the April 2009 elections, as noted by international observers. However, at this moment there has been no verdict from the Constitutional Court stating that the elections were illegal. The riots which followed the elections indicated that some segments of society disagreed with the results. The early elections of July 2009 seemed to indicate fairer conditions. The November 2010 elections were applauded by international observers as well-managed, free and partially fair: the communist opposition had much more access to the state media than the opposition in the 2009 elections. The Central Electoral Commission served as an impartial body dealing with some provocative claims of fraud claimed by the communists. Various election surveys do exist in Moldova, but their predictions are usually quite far off the mark. Thus their reliability for the voter is low.

Free and fair elections

7

Democratically elected political representatives have considerable power to govern. The state may lack the resources to implement a full set of policies, but its basic power to govern is well-established. The 2009 – 2010 change of government and the new government's pro-European orientation will have an impact on the deeply ingrained problem of politico-economic players with vested interests and their abuse of political offices. The basic problem of state capture and political corruption is not likely to disappear shortly. The shift from one-party rule to a more transparent multiparty coalition will at least reduce the opaque connection between national politics and (criminal) business interests, whereas the European Union provides incentives to prioritize these problems. At least in various visits to Brussels and European capitals, Moldovan leaders have recently restated their commitment to the fight against corruption (especially in the context of visa liberalization process with the EU), but almost no progress has been observed in combating corruption up to the end of 2010.

Effective power to govern

7

As a rule, no prohibitions exist regarding the founding or functioning of political and civil society organizations. Most NGOs function as either civil society advisers to the government or as substitutes for deficiencies in state responsibilities concerning social work, education, security or poverty reduction. Conversely, NGOs acting as watchdogs and/or mobilizing the populace against government policies are few and far between. The challenging of the communist government at

Association / assembly rights

7

the April 2009 elections resulted in much more serious and frequent reports of the intimidation, violent repression and obstruction of civil protest movements and demonstrations. The protests and their repression in the aftermath of the fraudulent elections marked the temporary demise of civil rights protection in Moldova, but since the change of government, the situation has improved markedly for civil society, the public sphere and NGOs. At the moment, the stance the new rulers will take vis-à-vis critical voices from civil society, inevitable groups of disgruntled followers and, in the short term, civil society organizations sympathetic to the Communist Party, is an open question. The indications are that the new government takes a much more open and constructive attitude towards civil society. The activities of the Civic Coalition for Free and Fair Elections during the early 2010 elections is indicative of the strengthened position for civil society organizations in Moldova.

As far as freedom of expression and media are concerned, the crisis of the April 2009 elections and the subsequent protests marked a distinct downturn. The authorities used their own and the state's official media to control the flow of information on the protests and to propagate their own view concerning the involvement of foreign agents in the protests, etc. Independent and foreign journalists were threatened and harassed, and access to information obstructed. The situation has improved since: Moldovan journalists are better organized and have created their own monitoring system to enhance professionalism. By the end of 2009, the leadership of the influential state-owned media outlet Teleradio-Moldova was dismissed, as the outlet had been abused systematically for party politics. The overall improvement is illustrated by Moldova's score in the Worldwide Press Freedom Index on a 0–100 scale with a zero mark for best possible performance, which went from 20.50 in 2008 to 19.13 in 2010. The respected Independent Journalism Center monitored media reporting on the eve of the early 2010 elections and demonstrated that most media outlets were neutral and professional in their reporting, with some exceptions which had a partisan position in favor of the Communist Party or the Christian Democratic People's Party (Flux), unduly criticizing other parties. Some hardliners in the new government have suggested a ban on communist media outlets but this has been sidelined, indicating the prioritization of freedoms over political expediency.

Freedom of
expression

7

3 | Rule of Law

During the April 2009 unrest, the communist authorities clearly abused the judiciary for political purposes. Typically, the legislative and the executive hardly acknowledged their separate roles in a democratic system. The new government's understanding of democracy emphatically involved the separation of these powers. Yet, the constitutional stalemate and the polarization over the past one and a half

Separation of
powers

6

years have prevented a consistent implementation of the separation of powers. With the presidency pending, the position and autonomy of the legislative has been mostly restored. The independence of the judiciary is bound to be a longer process and no big changes took place.

Moldova has maintained the elaborate, institutionally and functionally differentiated judiciary that was present during the Soviet period. Moldova's 2005 judicial reform generally rates as a substantial improvement to the system's functioning and architecture, although certain deficits such as corruption, politicization and an enormous backlog of cases continued to hamper it. These deficiencies also undermine public trust in the courts. In view of the general state of checks and balances in Moldova, political penetration of the judiciary is a given, although in some cases the courts, and especially the Constitutional Court, have demonstrated a remarkable degree of independence and professionalism. In early 2009, the communist government implemented a judicial reform with key aspects that were rated negatively by the Council of Europe, or that disregarded its recommendations, especially concerning the Public Prosecution Service and the Superior Council of Magistrates. The new government has made judicial reform a key priority and set out to redo the amendments to the Law on the Supreme Council of Magistrates. The scope of the reforms as a whole (e.g. the elimination of special military and economic courts) and the fact that it requires constitutional amendments make it a protracted process, but first steps and good intentions are observed, although without noticeable positive results.

Independent
judiciary

6

Petty corruption is deeply ingrained in Moldova, and the entanglement of political office and vested economic interests was at the core of the communist regime. To the outside world the regime kept up appearances by implementing a National Anti-Corruption Strategy and cooperating with the Millennium Challenge Corporation (MCC). These programs largely targeted incidental cases of petty corruption rather than grand abuse of office. The installation of new institutions and lawmaking clearly outpaced the actual implementation and adherence to international instruments. Consequently, public trust in state administration and public servants is low, as the Public Opinion Barometer indicates. The new government has intensified cooperation with international anti-corruption organizations such as the European Union, the Council of Europe's Group of States against Corruption (GRECO), Transparency International (TI) and the MCC. Despite the intensification of cooperation, no results were achieved in combating corruption as is noted in the last GRECO report for Moldova (GRECO Report – 01/10/2010). Economic crime and money laundering are key priorities of the anti-corruption agencies at present mainly due to the process of visa liberalization with the EU. Nevertheless, public perceptions and the ingrained habits of public officials are slow in changing: in the November 2010 Public Opinion Barometer, over 60% distrusted the police and the courts.

Prosecution of
office abuse

6

Civil rights are not violated systematically but rather partially and incidentally by individual state authorities. Nevertheless, the Moldovan state regularly lost human rights cases in the European Court of Human Rights (ECHR), largely because of mistakes intentionally made by biased judges. More often than not the ECHR's judgments were not implemented. Evidently, such practices increased rapidly when tensions were exacerbated at the April 2009 elections, leading to grave human rights violations by the police and security services, including arbitrary arrests and ill-treatment in detention. The authorities behaved with increasing hostility towards civil-society organizations. The new government has undertaken a number of initiatives to clamp down on violations and enhance respect for human rights and rule of law standards (e.g. a "zero tolerance" policy towards ill-treatment during detainment). Monitoring by civil society and state agencies has improved. Evidently, the background of many new political leaders in civil society opposition has heightened their awareness of civil rights and freedoms. Again, as the violations concerned were endemic rather than systemic, the reform process is bound to require endurance on the part of the authorities. One of the most visible signs of their commitment was the December 2009 establishment of the National Participation Council to open dialogue with civil society organizations and involve them in political decision-making.

Civil rights
7

4 | Stability of Democratic Institutions

The performance of Moldova's democratic and administrative institutions was limited not so much by instability but rather by a lack of resources, state capture by vested interests and the lack of political will to tackle society's key problems. The short track record of the new government is mixed in this respect. Since mid-2009, political readiness to name and address the key challenges has certainly increased significantly. Differences of opinion in the new coalition government occasionally hamper political decision-making and sometimes lead to ineffective compromise solutions. The fundamental drawback for the functioning of political institutions, however, has been the stalemate in the election of a new president and/or the reform of the constitution. During the reporting period much political energy was sapped by efforts to break (or perpetuate) the constitutional stalemate: Attempts by the new government to have a president elected by the new parliament in November–December 2009 with a two-third majority failed, as the Communist Party boycotted the elections. In May–June 2009 the Communist Party had fallen one vote short of electing a new president. After the 2010 constitutional referendum failed to meet the 33% turnout, new parliamentary elections were held in November 2010 as a last resort to break the presidential deadlock. Since September 2009 the president of the Moldovan parliament has been acting president of Moldova, but the deadlock continues after the third parliamentary elections in 20 months. Also, the resistance of a segment of medium-level professionals to obey decisions from higher echelons

Performance of
democratic
institutions
7

results from political uncertainty. They fear that if the Communist Party takes power once more, they might be punished for “collaborating” with the current authorities.

As a consequence of the presidential and constitutional deadlock, public trust in these democratic institutions is low: 60%–70% distrust the parties, the government and the president (November 2010). There are no indications that veto-players may step in despite the stalemate paralyzing political decision-making. Under communist rule (until mid-2009), state capture and monopoly of power, not veto powers, constituted key problems in the acceptance of democratic institutions in Moldova. The current institutional deadlock produces similar results. However, the risk of a reversal of institutional democratization seems remote in Moldova. This is in itself a major achievement, considering the adverse domestic and regional framework conditions, which include a contested national identity, the Dnjestr conflict and an ongoing socioeconomic crisis and, most importantly, the institutional deadlock. Significant extremist leanings are absent from Moldova’s political parties and its community of civil society organizations. The complicated and unproductive double electoral process of the past one and a half years may be interpreted negatively as the abuse of institutionalized checks and balances for egoistic political ends and obstruction, or positively, as acceptance of institutionalized procedures despite the unwelcome outcomes.

Commitment to
democratic
institutions

8

5 | Political and Social Integration

In the second half of the 2000s, the Communist Party consistently lost voters in each successive election. In the case of Moldova, it may be argued that communist reforms of electoral laws in 2008 and 2009 were intended to forestall a more active and lively parliament (e.g. by banning pre-electoral alliances and upping the electoral threshold to 6%). Although diversification and some degree of consolidation among the non-communist parties has taken place, the transition from leader-based parties to parties representing stable social groups is far from complete. Conversely, these rules eventually initiated a trend towards the convergence of opposition parties and their mergers or alliances. The November 2010 elections are illustrative of the ongoing process of merger and consolidation: Apart from the Communist Party, three parties of the Alliance for European Integration (the Liberal Democratic Party of Moldova, the Democratic Party of Moldova and the Liberal Party) managed to exceed the threshold (out of a total of 40 contenders). Besides this, all the political parties have a democratic deficit in their own decision-making processes, for example the list of candidates for MPs are composed by the leader of the party. The enhanced polarization between former opposition and (post)communists, however, is reminiscent of earlier stages of political maturation in East-Central Europe.

Party system

7

Social, non-political self-organization and self-help are mainly concentrated on communal and family structures of economic subsistence. A small elite, based almost exclusively in the capital of Chisinau, has produced social capital by teaming up with relevant international organizations. Typical for a Soviet successor state, attitudes and concepts concerning social organization are focused on the state, irrespective of the ability and willingness of the state to live up to expectations of state protectionism and problem solving. NGO activity is gradually spreading from the capital to other parts of the country and to other societal groups. Alongside this geographical diffusion, there has been greater coverage for new issues, like energy efficiency or environment issues. NGOs continue to rely heavily on international support, a fact sometimes used by the communist regime to discredit them. NGOs advocating vital interests of social groups generally depend on funding from their international partners and rely on the international community to influence policy-making rather than on a mobilized constituency. Broader, bottom-up civil society initiatives that function as an additional check on government policies and as a lobby for group interests are rare. Only NGOs that provide much-needed expertise and a small circle of major business interests have access to decision makers. The new government coalition may begin to change this outlook, as many of its key figures are themselves either former NGO activists or closely associated with key NGOs. Beyond this greater commitment of the new leadership to more civil-society involvement and NGO development, there is a real risk that, in a small country like Moldova, established NGOs will lose their meager human resources to the pull of influential and lucrative positions in the administration and in democratic institutions.

Interest groups
6

The political parties and movements that reject representative democracy as a matter of principle (on ethnic or ideological grounds) were marginalized in Moldova at least a decade ago. All relevant political parties claim to respect democratic institutions, procedures and electoral outcomes. Among the populace too, a belief in democracy as the best form of government remains high. Quite remarkably, 50% – 60% of interviewees give a negative answer to the question of whether their country is moving in the right direction. This November 2010 response is similar to that of 2008, despite the fundamental political reorientation that has taken place in the meantime. Arguably, the current interviewees are condemning the stalling of any development rather than the reorientation per se. Tellingly, more than half of the interviewees are unable to answer questions about the main achievements and failures of the new government led by Vlad Filat. Two-thirds say they have no or not so much trust in key institutions (parties, government, president, parliament). The differences in score between these institutions are marginal. Some survey questions seem to indicate a certain increase in political participation and awareness. The turnout at recent elections, however, has been consistently low (58–9%) and dramatically low at the constitutional referendum (30%). A straightforward interpretation of these figures is impossible given the

Approval of
democracy
6

number of Moldovans living abroad and the political boycotts in force. Overall, principled adherence to democracy is high, trust in individual institutions is consistently low and so is reliance on the performance of democratic leaders and institutions. Interviewees' judgment of the new government continues to depend on a choice of belief rather than a sober assessment of achievements and failures. (IPP, November 2010 survey)

Rural Moldova in particular has maintained strong traditions of communal self-help, which is a key asset to combat the hardships of transition and subsistence, as demonstrated by the mass influx of cash remittances from Moldovans working abroad. The widening gap between rural and urban Moldova, the resulting migration flows to the cities, and most of all the out-migration of up to one-third of the working age population has seriously damaged the social fabric and voluntary self-help associations in the villages. Conversely, with the diversification of political parties, a number of expert and advocacy NGOs are consolidating their positions. It is noteworthy that the political (and ethnic) polarization has not resulted in cleavages and major societal conflicts. Following the chequered but obvious modernization of domestic education and the number of Moldovans with international education or professional experience, social capital and the base for civil society is widening in the medium term. However, the degree of voluntarily and autonomous organization remains low.

Social capital

6

II. Economic Transformation

6 | Level of Socioeconomic Development

Social exclusion is extensive and the relative advantages of the egalitarian Soviet system, such as access to education and health care, are rapidly eroding: Uncontrolled urbanization and out-migration produce a widening gap between a relatively affluent urban middle-class and a rural population dependent on the state, subsistence farming and remittances from abroad and (temporary, often illegal) migration to Russia or the West. Social exclusion, therefore, is largely driven by poverty and a sharp increase in economic inequality. The economic crisis caused a substantial reduction of remittances in 2009 and rising unemployment which mainly hit the weaker segments of the population. Gender and ethnicity are not strong determinants of social exclusion, with the possible exception of the Roma community who are victims of popular discrimination. The HDI has hardly changed since 2005 (0.606) and the stable rates for 2009 and 2010 (0.620 and 0.623 respectively) rather suggest a lag in the data. Moldova ranks 99 in GDI (last of the European countries), a position that was strongly predetermined by the ratio of

Question
ScoreSocioeconomic
barriers

3

female to male wages in non-agricultural activities. The growing rural–urban disparities in terms of socioeconomic equality are not easily demonstrable in terms of the nationwide Gini coefficient for inequality.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	4402.5	6054.8	5439.4	5808.8
GDP growth	%	3.1	7.8	-6.0	6.9
Inflation (CPI)	%	12.4	12.8	-0.1	7.4
Unemployment	%	5.1	4.0	6.4	-
Foreign direct investment	% of GDP	12.1	11.8	2.4	3.3
Export growth	%	15.1	-0.7	-12.1	12.8
Import growth	%	14.6	2.9	-23.6	13.7
Current account balance	\$ mn.	-671.1	-979.0	-465.0	-483.6
Public debt	% of GDP	27.5	21.6	31.6	29.8
External debt	\$ mn.	3173.3	3460.7	3557.1	4614.9
Total debt service	\$ mn.	338.7	500.8	385.5	386.7
Cash surplus or deficit	% of GDP	-0.3	-0.4	-5.7	-
Tax revenue	% of GDP	20.6	20.4	17.7	-
Government consumption	% of GDP	18.9	20.5	22.1	23.7
Public expnd. on edu.	% of GDP	8.3	8.2	9.6	-
Public expnd. on health	% of GDP	10.0	10.7	11.9	-
R&D expenditure	% of GDP	0.55	-	-	-
Military expenditure	% of GDP	0.5	0.6	0.5	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Moldova's market economy suffers from a weak institutional framework and thus lacks a level playing field for market competition. The "wild capitalism" of the transition period gave certain major economic players privileged access to political

Market-based
competition

5

decision-makers, and because of the entanglements between politics and business, the state does not apply the law consistently. Substantial grey zones exist beyond state regulation, such as corruption, the informal sector and illegal activities. Estimates of employment in the informal sector in Moldova itself are relatively low, but a third of the labor force works abroad, often illegally (about 30% of them) and in the informal sector. Since late 2009 Moldova has amended a number of laws and taken initiatives to create a business-friendly environment, for instance through a regulatory reform action plan, reform of the tax service, a new law on competition and by strengthening state supervision of financial services. As a result of the implementation of a series of reforms, in 2010 Moldova has considerably improved its position in the chapters of licensing and taxation activities, but the chapters on export–import and employment have lacked any demonstrable progress. Moreover, there are two fields in which Moldova has a particularly poor situation: Access to credit and protection of investments.

No oligarchic monopolists like those in Russia or Ukraine have emerged in Moldova because of its small market. Nevertheless, the state regulates the formation of monopolies inconsistently because of the entanglements between politics and big business and because of the country’s large informal economy. Partly for political reasons and partly to demonstrate its European orientation, at its very first session in September 2009 the new Filat government announced measures to break up monopoly schemes. Despite the fact that “the elimination of monopolies” was one of the leitmotifs of the 2009 election campaign, in 2010 there has been no noticeable improvement in the protection of competition, in deterring anti-competitive arrangements or in controlling monopolies. However, under the influence of EU competition law, the relatively basic rules on competition and anti-monopoly regulations in Moldova are likely to improve further, and to be enforced more stringently.

Anti-monopoly
policy

5

After becoming a WTO member in 2001, Moldova has reoriented its economy toward exports. Exports now comprise about 50% of GDP. The state’s monopoly on trade was quickly abolished after the fall of the Soviet Union and most prices were also liberalized early on. State regulation, illegal trade flows and administrative non-tariff barriers mean that Moldova is only selectively integrated into the world market. The prohibitive Russian customs’ tariffs and excises on most Moldovan agricultural products have been removed but the risks persist, because the lack of general political clarity in Moldova makes the Russian factor unpredictable. The main exportable agro-industrial products originate from subsectors dominated by state-owned companies. Negotiations for a future deep and comprehensive free trade area (DCFTA) between the EU and Moldova will push for further improvements in this field, and are one of the priorities of the new government – to be achieved through, for example, the improvement of the customs service and trade legislation.

Liberalization of
foreign trade

7

In recent years, French and Austrian financial institutions acquired several larger and smaller Moldovan banks. The legal framework for the supervision of banking and for the Central Bank has partly been revised and improved but still falls short of international standards, although the Moldovan banking sector is well-placed compared to the CIS-7 countries. The same applies to the National Commission for the Financial Markets (NCFM), which the government created in mid-2007 to supervise the non-bank financial sector and which became the unified licensing authority in the autumn of 2009. Due to IFI assistance, investment credits are growing steeply. The National Bank Moldova (NBM) is accountable to the Parliament only. The array of commercial banks has consolidated to 15. Moldova is in the process of implementing IMF recommendations for the supervision of the financial sector. A Strategy for the Development of the Non-Banking Financial Sector 2010 – 2013 was adopted on 26 August 2010. A modern information management system for more efficient supervision is being set up. Laws on securities markets and insurance are also under preparation.

Banking system
7

8 | Currency and Price Stability

The economic crisis has hit Moldova hard and reduced the influx of migrant remittances. Conversely, the crisis has squelched the economy's inflationary tendencies quite effectively: They are down from 12.8% in 2008 to almost nil in 2009. The net effect of new anti-inflationary policies on the exchange rate is hard to estimate. On a day-to-day basis the Moldovan Leu is relatively stable in relation to the Euro, but on a year's end basis the official exchange rate fluctuated from Leu 14.5 to the Euro at the end of 2008 and 17.6 for 2009 to 15.9 for 2010. Due to the crisis, pressures on the national currency increased and at the end of 2009 the Moldovan Leu was devalued and reserves of the National Bank Moldova (NBM) were used to counter the consequences of the crisis and to stabilize the exchange rate. Monetary policy was eased substantially. In 2010, however, monetary policy was tightened again in order not to miss the 5% target for inflation. But despite the direct inflation-targeting regime adopted by the NBM in 2010, the monetary authority continued loose monetary policy in conditions of high inflation pressures. NBM has defended this position, arguing that banks have an incentive to lend, and claiming that most inflationary pressures are related to production costs that cannot be influenced by monetary policy.

Anti-inflation /
forex policy
9

The combination of a substantial change in government (policy) and a hard-hitting economic crisis make it virtually impossible to assess the effectiveness of government policies in this policy field. The current account balance improved from -\$987 million in 2008 to -\$439 million in 2009. Over the same period exports dropped from 40% to 36% of GDP, but, predictably, imports fell from 91% to 72%. Much of these government measures, however, were offset by the global crisis,

Macrostability
7

resulting in a shrinking of FDI (net inflows) from \$700 million in 2008 to a mere \$90 million in 2009. The new government deserves credit for constructive cooperation with international IFIs such as the World Bank and for immediately outlining a necessary, but unpopular crisis program in October 2009 – the Economic Stabilization and Recovery Plan for 2009-2011 – to get rid of inefficient public spending and help businesses to withstand the economic crisis and support the most vulnerable segments of the population. Thus, the government seems to be able to largely withstand popular pressure. Due to the dramatic shrinking of remittances, domestic consumption and VAT income, a rise in social transfers increased and widened the fiscal deficit from 1% in 2008 to over 6% in 2009. Health, education and social protection continued to be driving forces of public expenditure growth and consumed 74% of the state budget – less than in early 2010, but more than in the respective period of 2009 (71%).

The budget deficit continues to be financed mainly from external sources, given the lack of long-term cheap domestic resources and the poor opening of the international financial institutions in Moldova. As a result, during the first ten months of 2010, public debt increased by 42.6% in dollars (from \$775.1 million to \$1.103 billion). However, the current level of external debt continues to be durable, with an acceptable share of external debt to GDP (14.3% in 2009, which will probably increase to 21% in 2010 and 25% in 2011). A more significant threat seems to be posed by increased public debt from issuing Treasury bonds, which have a higher interest rate, a short financial maturity and do not provide space for private investment.

9 | Private Property

Moldovan law formally safeguards private property. State intervention is no longer a major concern. While the protection of property rights is structurally assured, the picture is qualified by concerns about the impartiality and independence of Moldova's judiciary. The protection of intellectual property is also a matter of ongoing (international) concern. With international assistance and guidance, however, the new government has set out to improve legal standards and their implementation: For example, the entry into force in November 2009 of improved legislation on intellectual property rights.

Property rights
6

Private companies constitute the backbone of the market economy, although non-profitable state-owned companies continue to be protected from market forces by, for example, preferential fiscal treatment. According to the World Bank's Doing Business Ranking, Moldova has not improved its business-friendliness. Nevertheless, the present government at least prioritizes the improvement of business conditions, especially for SMEs and in rural areas. During the crisis, the upset of Moldova's economic structure continued: Agriculture's contribution to

Private enterprise
7

GDP remained stable at 11%, industry's fell from 15% to 10% (2008 – 2009), whereas services moved up from 75% to 79%. Compared to other CIS countries, the problem of monopolies, state companies and oligopolies is a minor economic concern in Moldova. However, there is room for improvement, as in the World Bank Doing Business report 2011 Moldova has stagnated or fallen in positions at almost all evaluation criteria, registering some progress at one position – dealing with construction permits (+4) – and advancing only in reduced employer contribution rates for social security.

10 | Welfare Regime

The renewed increase in the share of the population living in poverty due to the economic crisis indicates that social safety nets are incomplete and not at all robust. The key challenge for the present government is shedding legacies of social benefits (not necessarily for the weakest in society) from the communist era, and facing the constraints of a sustainable state budget while providing the necessary minimum nets against poverty for all. Moldova offers social assistance and welfare programs, but they are too weak financially and too ineffective in terms of compensation for social risks. Rural poverty is especially widespread, despite the 2004 IMF and World Bank-initiated Economic Growth and Poverty Reduction Strategy and the country's substantial and consistent economic growth since 2000. The 2008 Law on Social Assistance has established more targeted social aid on the basis of revenues and needs of a given household. Poverty is predominantly a rural phenomenon, indicating that social security is deficient in villages. The drop in remittances and budgetary constraints has revealed the gaps in the social nets. The restructuring of the social security system is a protracted process: The new cash-benefits social assistance system is one of the initiatives leading towards a unified system of pensions and other benefits. The unification of the pension system is a key objective, but has by no means been achieved. Due to lack of financial resources, the government had to consider suspension of pension indexation in 2010. The government is about to introduce a pension reform that provide equitable state pensions to all citizens.

Social safety nets
4

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

Equal opportunity
5

students, adding to income-based inequality. Both in terms of legislation on gender equality and the implementation of existing legislation, some progress has been made with the assistance of international organizations.

11 | Economic Performance

Considering the estimated size of the grey market and cash remittances, macroeconomic data for Moldova are at best indicative. For example, the country's relatively moderate unemployment rates fail to take into account the (often illegal and/or seasonal) out-migration of up to one-third of the workforce. Thus, the substantial and continuous annual growth rate of 6%–7% (1999 – 2008) indicated sustainable development. The Moldovan economy has weathered the Russian wine embargo much better than predicted, and the embargo triggered the beginning of product diversification in exports, which are based on a handful of (low value-added) products, such as wine, tobacco and textiles. Due to the global economic crisis, remittances, FDI and imposts have dropped painfully, resulting in a sharp GDP fall in 2009. Yet the first half of 2010 already registered a GDP growth of no less than almost 6%. The structure of growth and economic activity overall remains lopsided. This performance continued in the fourth quarter, due to both growth of final consumption and capital formation. In terms of production in the last quarter of the year, a significant increase in Gross Value Added (GVA) was registered in agriculture and industry. Growth for the entire year in 2010 was 7%, which is far over the IMF (3.2%), EBRD (4.5%) and NBM (5%). Agriculture still accounts for 41% of employment, but only 11% of GDP. For industry, the corresponding figures are 10% and 12% respectively, for the service sector 79% and 47%. Overall, the Moldovan economy is consumptive rather than productive. The severity of the crisis is only partially reflected in the slump of PPP GDP from \$3,002 (2008) to \$2,858 (2009). More importantly, remittances are estimated to have declined by 30% in 2009 and industrial production by 22%.

Output strength
5

12 | Sustainability

Thanks to international norms and pressure, environmental concerns have made it onto Moldova's policy agenda. Moldova's energy consumption is still largely dependent on (Russian) oil and, most of all, gas. The share of renewable energy is negligible. Access to potable water remains a serious issue in rural areas, especially for the Roma population, although up-to-date statistics are scarce. Major legacies of industrial and agricultural pollution remain unaccounted for and unresolved in Moldova. These legacies have serious consequences for public health. Intensified negotiations and harmonization with the EU have led to new initiatives in this field. As the EU admonished in 2010, sustainability strategies lacked inter-ministerial coordination: The 2008 inter-ministerial Committee for Sustainable Development

Environmental
policy
5

and Poverty Reduction failed to meet at all in 2009. The main weakness concerns not the good intentions of the government, but rather the incapacity to monitor and regulate environmental and sustainability policies.

Despite having relatively large resources for R&D, Moldova is poorly positioned in the “innovations chapter” rating of the World Economic Forum, showing a score much lower than would be expected for its level of investment. The Academy of Sciences and its subordinate institutes are sole beneficiaries of the funds allocated for R&D. The lack of private sector and academic center involvement in the innovative process results in low applicability of Moldovan inventions and regression in competitiveness. The mushrooming of unaccredited institutions of (higher) education seems to have ended, but the brain-drain to EU countries and Romania has been detrimental to the Moldovan educational system. So far, enrollment rates are close to 100% in primary and secondary education, irrespective of gender, with rates of tertiary enrollment significantly higher for women than men. Faculty in tertiary education is under-qualified (only 50% have a PhD) and structurally overburdened with lecturing. As part of EU harmonization, Moldova adhered in 2009 to the Bologna Process. Some education laws initiated by the communist government were canceled or revoked by its successor. Standards in higher education are increasing, but quality guarantees remain an issue. A new Education Code which was supposed to produce changes in the sector was not adopted due to lack of consensus between the components of Alliance for European Integration, the unclear political situation and antagonistic discussions between the Academy of Science and the government.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

Moldova has lost a decade in its 1990s transition period and although the transformation achievements of the communist 2000s are not entirely negative, they were hampered by massive side effects. Thus the current structural constraints on the government are massive. Moldova's management faces a number of serious structural constraints with root causes that reach far beyond the current government. Three key constraints are directly or indirectly linked to the end of the Soviet Union. Firstly, the loss of the traditional Soviet markets for Moldovan exports has made it difficult for Moldova to reorient its export economy to other markets. This problem has been exaggerated by Russia's propensity to abuse market access for political purposes, thus endangering planning reliability for Moldovan producers. Moreover, poorly managed privatization has undermined the potential for the Moldovan economy to recover. Secondly, the intractable Dnjestr conflict has turned an area of regional and ethnic conflict into a consolidated failed state and a source of organized crime. Both Russian interference and Dnjestr sap political energies and constrain strategic options for Chisinau. Thirdly, the suppressed issue of the separate nation and statehood of Moldova in relation to Romania has re-emerged. 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. The lack of critical support from the European Union and the West also contributed to Moldova's weakness.

Each of these perennial issues absorbs enormous political energy, undermines the legitimacy and strength of 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 members of the 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. In the 2000s, the massive out-migration of the Moldovan labor force (partly seasonal, partly illegal, partly human trafficking) to both EU countries and the CIS became increasingly detrimental to the social fabric in rural areas. The influx of cash remittances, which largely bypass state control and taxation, oriented the economy towards consumption rather than production and created an illusion of stability and sustainability not warranted by macroeconomic

Structural
constraints
8

figures, risks and dependencies. The fact that the global crisis had a much stronger impact on consumption than on production has led to the extreme dependency of Moldova.

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

Civil society
traditions

7

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

In the right-bank territories the societal situation is characterized by religious or ethnic cleavages, despite substantial Russian-speaking minorities sharing the Moldovan majority's Orthodox religion. The "Dnestr conflict" between the national government in Chisinau and the PMR secessionist republic on the left bank of the Dnestr is a classic "frozen conflict" which has not seen any outbreaks of violence since the 1994 ceasefire. The PMR has consolidated into an authoritarian rogue state thriving on various forms of illegal economic activity. Recently there has been some indication of cracks in the authoritarian leadership of the PMR (beyond the scope of this report). Speculations on a democratic revolution or even the reunification of the Moldovan state seem far-fetched. For the time being, there are no indications that the Tiraspol leadership will resort to boosting the Dnestr conflict to deflect attention from their domestic failures. The gradual diversification of political factions in Tiraspol rather seems to further downgrade the Dnestr conflict. Most importantly, the conflict never mobilized larger segments of the population on the right bank along ethnic or ideological lines.

Conflict intensity

5

Despite the glaring socioeconomic disparities and the political polarization between communists and the democratic opposition – now ruling parties – with the exception of the clashes in April 2009, these tensions have not translated into a polarization of society along class lines, mobilization or violence. Remittances and increased chances for social mobility for the younger generation seem to hold the social fabric together.

Despite the lack of violence, there is a sort of soft geopolitical split due to ethnic differences or nostalgia to former USSR is observable.

II. Management Performance

14 | Steering Capability

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

Reviewing the track record of the past one and a half years and considering the domestic political conflict and the economic crisis, the coalition has achieved more and held together better than most analysts expected. As the coalition was primarily united in its opposition to the communist regime, but differed on many issues of political principle and strategy, more populist measures, discord in the coalition and office seeking were expected. Evidently, as political culture cannot be changed overnight and as negative phenomena such as state capture, corruption and rent seeking, and nepotism are not limited to the communist regime, scandals and conflicts are bound to weaken the coalition's resolve in the medium term. In the present situation, moreover, even if the policy managers were to take all the right measures given their limited resources, they could hardly improve the situation to a degree that would substantially increase their societal basis in terms of output legitimacy.

Question
Score

Prioritization
5

The government has improved its agenda and commitment, but bureaucratic inefficiencies and lack of resources are not the only reasons for deficits in the reform process. In both democratic and market economic areas of reform, the particularistic elite tend to undermine the process by pursuing their own interests. The new government coalition still has to prove its resilience and unity in implementing its policies and strategic agenda. The overall impression is that compliance and cooperation with the international community in general and the EU in particular serves as a key orientation for coalition unity (e.g. in budgetary discipline or in reform of the judiciary or the customs services). Interagency rivalries, rent-seeking and bipartisan obstruction in politics and the civil service are bound to create serious obstacles to efficient reform implementation in the medium term, all the more so as the present coalition contains potentially competing leaders. The Alliance For European Integration's largest party, prime minister Filat's PLDM, has to cooperate with the key figures of the other two parties: Mihai Ghimpu and Marian Lupu, representing the Liberal Party and the Democratic Party respectively.

Implementation
6

Due to the immense constraints posed by structural problems and the economic crisis, policy learning is difficult to achieve. Indications are that the present government is open to advice and policy recommendations from international organizations even if they do not tally with its need to broaden its base in society by pursuing necessary but sometimes unpopular strategies (e.g. by reforming the pension system and by cutting down on ineffective state subsidies). On the other hand, in some cases, donors themselves are failing to align their assistance to the main strategic priorities of the country as requested by the Paris Declaration principles (National Development Strategy), as, for example, in the case of 2009 – 2010 when the support for economic sector was very poor. The present government, moreover, seems focused on defining policies for their effective outcome in many areas rather than on repudiating any policy of its communist predecessors (e.g., reform of the judiciary). Without any doubt, wheeling and dealing will take place within the cabinet and among political institutions, but on the outside the coalition seems geared towards using whatever leeway is left based on current assessments and empirical data rather than ideological dogma. On the other hand, the main issues on the agenda today (economic restructuring, social policy and fiscal/monetary policy) are global issues rather than matters of national debate.

Policy learning
5

15 | Resource Efficiency

Moldova's key assets relating to the problems it faces are twofold, despite all limitations: Firstly, the government is able to increase its resources substantially by complying with EU and IFI standards and recommendations. Thus far it has been successful in doing so. Secondly, with the change of government, a trend that had

Efficient use of
assets
5

begun some years earlier has intensified, and Chisinau's main asset may be the younger, partly Western-trained generation of politicians and civil servants, committed to the reform agenda of the new coalition. The prime minister and his two deputies, for instance, are all in their forties. Despite some positive changes in the last one and a half years, political loyalty remains an important criterion for selection of public servants. The budget information is generally available but is often encoded under general description that is difficult for ordinary people to understand.

Even if there are many talks on decentralization, the real process, especially in financial terms, is almost not taking place.

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

In order to give strategic thinking and policy coordination a more central role in defining more effective public policies, the Division for Strategic Planning, Policies and Aid Coordination (DSPAC) was consolidated from the State Chancellery within the central public authority (section for policy coordination). DSPAC is responsible for coordination of all the ministries (Divisions for Analysis Monitoring and Evaluation of Policies) in monitoring the implementation of the National Development Strategy, sectoral strategies, ministerial institutional development programs, preparing, drafting and revising all the public policy documents and, together with the Ministry of Finance, coordinating them with the Medium Term Expenditures Framework (MTEF). At the same time, in order to ensure the involvement in policy-making of all the relevant actors, the DPAC is working closely with the National Participation Council (established by Government in 2009) which represents a forum where the civil society can monitor policy implementation and consult/influence the government on different public policy initiatives. Still, given the unclear political situation and frequent elections there are some difficulties in ensuring more transparency on some of the policies and ensuring better coordination between the ministries (which are divided between three components of the Alliance for European Integration).

The new government has initiated several new laws to curb corruption, including new laws on conflict of interest and public procurement. As a symbolic act contrary to previous governments, ministers of the Filat government have all declared their financial situation for 2009 in a statement available online. The Group of States Against Corruption (GRECO) has reported on Moldova's readiness to following GRECO's recommendations on the fight against corruption. Many regulations and

Policy
coordination
6

Anti-corruption
policy
4

laws concerning public finances, procurement and auditing which were signed earlier are now in the process of being implemented more thoroughly. The last GRECO report says that the efforts of combating corruption are very limited and Moldova still does not comply with at least 5 out of 15 recommendations given by GRECO. The biggest problems are related to money laundering, organized crime, cases of corruption among public officials and the criminal liability of legal persons of judges and prosecutors.

The party financing system is highly deficient, as shown in the November 2010 parliamentary electoral campaign, when most of the parties did not comply with the financing rules, but none of them were punished due to the lack of sanctions for not declaring expenses in the campaign. Most of the irregularities which were observed by civil society monitoring were related to the biggest three political parties: the Communist Party, the Liberal Democratic Party and the Democratic Party. Even if there is an adopted law on public financing of political parties, it is not yet in place as it was postponed for lack of funds.

16 | Consensus-Building

The political consensus on a market economy as a long-term objective has improved in recent years with the gradual sidelining of the orthodox communist faction in the Communist Party. All political players in Moldova accept the goal of democracy and a market economy. The exception to this broad consensus is the current regime in the Dnjestr Republic, which is still prone to bouts of Soviet nostalgia and post-Soviet authoritarianism (disguised a populist democracy). The dilemma of balancing economic liberalization and transformation costs on the one hand and social sustainability for the populace on the other, continues even after the regime change of 2009. In terms of adopting formal transformation-related legislation and orientation towards European norms and procedures, the degree of consensus among the major political parties is relatively high, even across the divide between communist opposition and the ruling coalition. No ideological debate on the long-term objectives of Moldova persists.

Moldova has no anti-reform or principally anti-democratic veto players. Even the anti-capitalist pockets in the Communist Party have lost their stance, conceding their resistance to market economic principles. The absence of visible and outspoken veto powers may be understood pessimistically as an indication that shady forms of economic activity continue largely unhampered by state regulation and control. The only strong anti-democratic actor is the Transnistrian regime based in the eastern regions of Moldova.

Consensus on goals
8

Anti-democratic
actors
7

The new political leadership has demonstrated a high degree of consensus building on two accounts. Firstly, by sidelining efforts to put former president Voronin to trial and risking an escalation of conflicts beyond the normal channels of political confrontation. As the new regime has not been too adamant about revoking or reversing reform efforts and legislative initiatives begun by their communist predecessors, the escalation of political polarization has been less than expected and has failed to mobilize the populace along lines of adversity. The new coalition has opted for a low-profile strategy on controversial issues of history and identity rather than tackling these risky and protracted issues offensively. However, as shown by the early 2010 parliamentary elections, the degree of polarization remains high, especially in terms of identity issues between Romanian and Russian.

Cleavage /
conflict
management
7

If the change of government in mid-2009 marked a real watershed in one particular aspect, it is the active involvement of cognate civil society organizations in providing both expertise for policy initiatives and, more importantly, in providing a societal base for necessary reforms. Dialogue with civil society has noticeably improved and access to information and transparency of the public decision-making process has increased. As a key event, in December 2009, the National Participation Council was established to facilitate and structure the participation of civil society in the public decision-making process. Politicians demonstrate greater openness to input and criticism from society and the public, probably as it is one of the few venues where they can consolidate legitimacy and build trust. However, Moldovan civil society is still weak in policy formulation as a result of limited access to state information. Many state institutions still perceive civil society as an actor that should not be involved in the decision-making process that is why the communication between the institutions and civil society is deficient.

Civil society
participation
8

Moldova has not seen any serious management of or public confrontation its dictatorial (fascist and communist) pasts and their respective injustices. Public discourse (e.g. in history textbooks) concerning collectivization, deportations and purges is scant and largely euphemistic. Communists tended to abuse the topic of the existence of fascist concentration camps in Romanian-German-occupied Moldova in WWII for political purposes against the pro-Romanian movements. These movements conversely staged protests against the Moldovan language and history, with pro-Romanian textbooks expanding on communist injustices for political purposes too. Moldovan law formally recognizes the rights of people exiled or politically repressed by the fascist and communist regimes to their former property, but no general statute on restitution exists. A hazardous process of de-collectivization and an incomplete restitution process wrought with uncertainties have produced a highly fragmented rural economy rather than historical justice. Restitution and historical justice, however, are not significant public issues in Moldova today. The present coalition seems largely united in its resolve not to open up the contentious historical issues related to former dictatorships and occupations

Reconciliation
4

or to national and state identity. Even the marginalized Christian-Democratic People's Party seems to have moderated its stance on reunification with Romania and the mobilization of ethnic issues.

17 | International Cooperation

The absorption of external assistance is made according to the country's main medium-term strategic planning document – the National Development Plan (2008 – 2011) – which determines the country's development objectives, identifies measures and actions to achieve these objectives and serves as a unique tool for integrating the strategic framework and the connection with budget planning (MTEF). The document creates a platform for a results-oriented, comprehensive, partnership-based approach for sustainable development and poverty reduction. At the request of the government, most donors expressed their willingness to formulate Development Partnership Principles (DPP) for coordination and harmonization of the government, and Partner Practices for Enhanced Effectiveness of Foreign Assistance to the Republic of Moldova. These were endorsed by the majority of donors in March 2010 and the Partnership Principles Implementation Plan (PIIP) was adopted in November 2010. PIIP sets out in specific terms how development partners and the government will work together to ensure that resources are aligned behind government priorities.

The realization of the activities included in PIIP is expected to improve the efficiency of resource use for realization of the government priorities and development targets set in the National Development Strategy (NDS) for 2008 – 2011 and the Economic Stabilization and Recovery Program (ESRP) for 2009 – 2011.

A high-level political forum, the Common Partnership Council (CPC), was created at the level of the prime minister and the heads of donor agencies present in Moldova to coordinate and monitor progress towards aid effectiveness. Another forum is the Sector Councils established by a regulation to cover the institutional framework for coordination of external assistance received by the Republic of Moldova from international organizations and donor countries (G.D. #12 on 19 January 2010). This realizes an important step in improving overall aid coordination.

During the last period better coordination was ensured between the government and donors (using meetings with the donors as forums for consultations), and the use of the national systems increased as more assistance was provided through direct budget support or sector budget support. Strategic planning was improved with the consolidation of a unit for policies strategic planning and aid coordination at the level of State Chancellery and the divisions for analysis, monitoring and evaluation

Effective use of
support

7

of policies from the ministries. More assistance (e.g., from DFID, EU) was disbursed for institutional capacity building initiatives and the government has created a more results-oriented approach towards strategic planning by piloting an ex-ante evaluation methodology in a number of key ministries.

The change of government has given a new dynamic to the process of legal harmonization and the general upgrading of Moldova's relations to the European Union, for example, raising the possibility of a future establishment of a DCFTA between the EU and Moldova. A new agreement between Moldova and EU – the Association Agreement – has to replace the old EU–Moldova Action plan, and the government is currently involved in intense consultations and preparations for the negotiation of the chapters regarding visa liberalization and the DCFTA.

A new memorandum on financial and economic policies was negotiated and signed with the IMF for 2010 – 2012 which offered macroeconomic support in stabilizing the economy to the government and kickstarted other important donors (European Union, United Nations family, bilateral donors, international financial organization – EBRD, EIB etc.) to offer financial and technical assistance to support its main development priorities (from NDS, EGRP).

Still there are some issues to be addressed:

1. The government continues to improve transparency regarding monitoring and evaluation (M&E) of external assistance (open data access/improve its quality by performing common M&E on development assistance (government, civil society organizations, donors etc.). Donors need to improve transparency (e.g. by making the project implementation evaluation reports freely available – there are few donors like the World Bank and SIDA which publish them on their websites)
2. A larger involvement by donors of civil society organizations in designing aid delivery instruments (programs, projects) and their evaluation;
3. National systems improved and used in official developmental assistance management;
5. Division of labor in aid management.

Thus far the new government has acted as a credible and reliable (but also highly dependent) partner to the international community. The corruption and the inefficacy of state institutions and the lack of reliable statistics on which to base policies and targeted assistance remain problematic, but the government's good intentions are generally accepted.

Credibility

6

Moldova is currently a member of a number of regional organizations (South-East European Cooperation Process or SEECP, Black Sea Economic Cooperation or BSEC, Central European Initiative or CEI) and seeks affiliation with Southeast Europe rather than the CIS region. Relations with Ukraine have been stable even if there were some tensions because of the issue of state border demarcation in the Palanca region and the unresolved situation of Moldovan properties in Ukraine. The deterioration of relations with Russia because of the wine ban, energy prices and the Dnjestr conflict was not Chisinau's fault, as Moscow most probably wanted to use political and economic leverage to protect its interest within the region and influence the elections in Moldova. Relations with Romania improved considerably, and the country became one of Moldova's most important trade partners, providing constant political support and most recently becoming one of the most important bilateral donors with financial assistance (€100 minimum for four years) to support the reforms in Moldova. Since the change of government, Moldova has expressed its interest in good relations with Kiev and Moscow, but its policy attention is focused on Brussels, the EU and its assistance and initiatives for both the European Neighborhood Policy (ENP) and Southeast Europe. Chisinau has intensified its efforts to make the most of ENP Plus, while at the same time continuing its long-term endeavor to be considered part of Southeast Europe with corresponding advantages in integration with Europe. As a small country in between EU regions, Moldova is intent on pushing the EU for more privileges, while acting as a constructive and moderate partner for contentious issues such as the Dnjestr conflict.

Regional
cooperation

7

Strategic Outlook

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

1) Geopolitical orientation: All facts considered, the present course is the best option for Moldova – for Chisinau to continue to take its clues from IFIs and the EU and to assuage the EU in offering more privileges and market access without alienating Moscow unduly.

2) Similarly, the new government has been wise and relatively unified in not reopening contentious but unproductive and divisive issues of national identity and language, reunification with Romania and historic legacies. Keeping these issues low key and prioritizing future-oriented reforms programs would be a step forward for the political parties and the intellectual elite. The same applies to the unsolvable Dnjestr conflict. Pragmatically, the only option for a future reunification of Moldova is a gradual process of democratization and diversification in the Dnjestr Republic. Outside pressure is bound to be counter-productive, both in the domestic situation of the PMR, concerning Russia's interference and in terms of political instrumentalization and distraction from structural domestic issues in Moldova.

3) In terms of the highly dependent socioeconomic development of Moldova, gradual approximation to the EU and mutual acceptance of the impossibility of self-reliant development is the best option. Better managed dependence seems to be the best alternative for Moldova even in the long term.

4) One of the few assets of Moldova as a small country is the influx of a younger generation (in their thirties and forties) into politics and state administration. Their Western training and enhanced competences may help Moldova to chart a more pragmatic course and improve its standing as a reliable and competent partner at the EU and IFIs. This generation may be able to shed some of the old controversies, feuds and ideological dogmatism of the past in favor of a shared outlook.

5) The future development of the political spectrum in Moldova is one of the major unknowns. Thus far there are no substantial signs that the Communist Party's loss of power will trigger a process of differentiation, divergence and eventually fragmentation. A three-fold split might occur – a reformist social-democratic party, a dogmatic communist party and a post-communist party with strong vested interests in the uneven and opaque transformation of the economy. Conversely, the big "if" is whether the present coalition will be able to rate a shared sense of purpose higher than petty politicking and egoistic calculus of their leaders. Policy conflicts, competing leaders and scandals of corruption and mismanagement are bound to put the unity and loyalty of the coalition to the test in the medium term. A return to communist hegemony may be ruled out, but the former opposition parties would be well advised to keep the door open for

constructive and reform-oriented post-communists rather than to use polarization to win over the disgruntled Moldovan voters. Frustration may swing large groups of voters from one party or coalition to another with each round of elections. Last, but not least, the new coalition should be careful to abide by the constitution as it tries to solve the presidential deadlock, without letting the issue sap too much political energy and distract from high-priority reform projects.