

Republic of Moldova **2015**

STATE OF THE COUNTRY
REPORT

Chisinau, 2015

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Key Policy Messages

- **Moldova faces a wide range of economic and geopolitical vulnerabilities that visibly undermine the country's economic security.** These vulnerabilities would be easier to deal with if the country had an open, transparent and efficient governance model that eliminated the factors endangering the economic security of citizens and of the state. Unfortunately, despite a few obvious changes of the political class during 2009-2010, this was not achieved, and currently the Republic of Moldova has to deal with great challenges to its economic security. The endemic corruption, oligarchization of state institutions, presence of suspicious foreign capital in the country's financial sector and vulnerability of the decision-making process of governance, when it comes to lobby actions that are almost crossing the line of what is deemed legal, are the most weighty risks that exacerbate the country's natural weaknesses. In the near future, along with the eventual liquidation of the problematic banks and the increasingly tense relationship between Chisinau and Tiraspol, some of the risks to the country's economic security might suddenly materialize and have serious repercussions.
- **State institutions, which are weak and easily influenced by hidden interests, represent a major danger to the economic security of the Republic of Moldova.** During 2013–2014, three banks of systemic importance (Banca de Economii (BEM), Banca Sociala (BS) and Unibank (UB)) committed frauds of about 12% of GDP. This could not have gone unnoticed by the National Bank of Moldova (NBM) and other relevant institutions. The slow and meager reaction of the institutions concerned, which failed to prevent the fraudulent activities carried out by those three banks, may be explained by either malice prepense or the incapacity of the responsible institutions to ensure financial stability in the country. Regardless of the causes for their passivity, it is certain that state institutions are not robust and independent enough, and thus are vulnerable to various forms of interference due to the hidden interests that are profiting from the embezzlement occurring in the banking system. These vulnerabilities generate risks to the economic and financial security of the state because of the repercussions of the crisis in the BEM, BS and UB and of the likeliness that similar scenarios will take place again in the future.
- **Eradication of institutional vulnerabilities that allowed for embezzlement from the BEM, BS and UB must become the top priority for the authorities.** It is particularly necessary to increase the level of professional independence and personal protection of the NBM officials who are directly responsible for regulation. At the same time, NBM's independence must be substantially strengthened in order to eliminate possible excuses for regulatory failures. To this end, it is necessary to eliminate the possibility of any court of law suspending NBM decisions related to the regulation of the banking sector. In addition, the NBM Board must be clear of any political interference, while its members must not have any direct or indirect political affiliations. NBM independence strengthening must take place along with the toughening of its responsibilities. It is particularly necessary to establish a mechanism for NBM performance assessment by an external counterpart. This mechanism would ensure accountability and would allow an independent assessment of the institution, especially in crisis conditions similar to those of the BEM, BS and UB.

- **The crisis of BEM, BS, and UB poses higher risks and wider implications for the Moldovan economy.** A major risk is the augmentation of the country risk along with the possibility of transformation of state guarantees used to grant emergency loans to those three banks. The volume of the guarantees is significant, if compared with the size of the Moldovan economy (about 9% of GDP and 34% of the state budget revenues). Therefore, public debt as a percentage of GDP will increase from 32% in 2014 to 48% in 2015 and 51% in 2016.¹ With a budget deficit, current account deficit, low level of official reserve assets and risks to the national currency, a higher level of indebtedness fuels the country risk. It will generate a significant fiscal shock that may last 10 years. At the same time, the reduction of foreign currency reserves in recent months has decreased the NBM's capacity to mitigate new pressures on the national currency. This fuels the Moldovan leu (MDL) depreciation risk and thus generates additional inflation risk.
- **The adjustments to the regulatory framework are not enough to prevent similar frauds in the future.** For instance, the courts of law can continue to issue decisions that can affect the corporate governance of banks and the interests of depositors, NBM decisions can be suspended by court judgments, verifications of shareholders' quality continues to be performed only for those who hold an equity stake exceeding 5% of the share capital, the shares of the commercial banks can be pledged further or purchased using loans provided by off-shore companies, and the notion of concerted activity continues to be quite vaguely defined by the regulatory framework. These are the main legislative and institutional gaps that must be plugged immediately because they increase the risk of repeating banking frauds in the future and thus they pose risks to the economic security of the country.
- **The poor quality of human capital is the main factor that worsens the competitiveness level, undermines the opportunities that come along with the EU Association Agreement and affects the country's economic security in the long run.** One of the fundamental causes are the gaps in the education system. Thus, despite the ambitious reforms launched in 2012, the mismatch between the training offer and the demand in the labour market continues to increase. The most problematic segment is the vocational education that is caught in a vicious circle: the outdated technical and material resources and the quality of the courses undermine young people's interest in these kinds of studies, which, in turn, affects the education conditions even more. The main risks and challenges that must be addressed immediately and strategically are the following: (i) the quality of the teaching staff at all education levels; (ii) motivation of the private sector to participate in the development of human capital; (iii) education sector funding; (iv) the increasing number of uneducated people; (v) stronger intention to migrate; and (vi) qualified and talented civil servants leaving public institutions. These factors undermine the quality of human capital, labour productivity, and competitiveness, and lead to missed opportunities with respect to the EU Association Agreement.
- **Instead of improving the country's current state of affairs, the political elites undermine it.** Though the society is polarized, most of the active political parties explored the geopolitical vote during the parliamentary elections in 2014, instead of urging people to unite, which polarized society even more. After the elections, the country's political situation continued to worsen, while the main pillars of statehood remain cracked. Thus, the formation of the Government was extremely difficult and was based on the agreement between the two parties establishing the ruling coalition. This goes against the fundamental democratic principle – separation of powers in the state. Besides, the lack of a clear Parliament support for the Government undermines the systemic reforms that the country's

economic sustainability depends on. This fosters political uncertainty, and along with the crisis in the banking system, it leads to the irrefutable loss of people's trust in key state institutions.

- **The Republic of Moldova needs a firmer external anchor.** Considering the institutional vulnerabilities, along with the endemic corruption, irresponsible political elites, disillusioned society and exulting hidden interests, the Republic of Moldova needs foreign actors to increase pressure for governance reform. With this in mind, it is vital to sign the Memorandum with the International Monetary Fund and tighten the conditionalities imposed by development partners for the financial, technical, political support provided to Chisinau authorities. More than that, the performance of public regulatory institutions must be audited annually by external, disinterested and impartial counterparts, with the audit results published fully. Considering the acute needs to fund the budget and consolidate the level of international reserves, such an external anchor could put considerable pressure on Moldovan government.



Executive Summary

Special Edition: Risks in the Banking Sector and the Implications for the Country's Economic Security

Throughout 2014 and in the beginning of 2015, the Moldovan banking system was left in disarray by a series of bank frauds of historical span that might undermine not only the economy, but even Moldova's integration into the EU. In November, three banks (BEM, BS and UB), accounting for more than one-third of the entire banking system of the country, ended up almost bankrupt, and NBM established a special administration regime for them. The critical situation of these three banks was caused by a series of frauds that aimed at decapitalizing the banks by extending extraordinarily large loans. This was done with the involvement of certain off-shore companies, local companies, and foreign banks, and most likely with the support of certain representatives of state institutions. Funds were embezzled from BEM, BS and UB on the basis of five fundamental factors: (i) inefficient management of BEM before the crisis; (ii) obscure changes in the shareholder structure of BEM, BS and UB; (iii) breach of the basic principles of corporate governance at BEM, BS and UB; (iv) financial engineering and artificial increase of the lending capacity of BEM, BS and UB; and (v) slow and inadequate response by NBM and other relevant institutions. Given that about 12% of GDP disappeared from the banking system and the assets of three banks account for about 35% of the assets in the entire banking system, the risks to the macroeconomic situation and to the entire country are obvious. They include the: risk from the state debt and, implicitly, the country risk; risk of a long-lasting fiscal shock; risk of national currency depreciation and of inflation effects; and risk that similar frauds may occur again in the future because the adjustments to the regulatory framework are not enough to prevent repetition of similar scenarios. The immediate policy recommendations target the closure of legislative gaps and the elimination of the institutional vulnerabilities that allowed the deterioration of BEM, BS and UB conditions: NBM independence consolidation and responsibility toughening; elimination of all of the "loopholes" by which off-shore companies interact with commercial banks; establishment of clearer criteria on how to determine concerted activity; assurance of professional independence and personal protection of officials working in NBM; and setting of a vision regarding the strengthening of stability in banks and enhancement of country's financial security.

Economy

The economic growth in 2014 lost velocity and may have become negative in early 2015. Consumers became more cautious with their savings; exporters are affected by the economic problems of Moldova's main trade partners; and, the risks in the financial sector continue in relation to the stability and integrity of the public budget. The harshening of the economic conditions and a more austere budget in 2015 will inevitably reverse the progress made in recent years in the field of employment and poverty reduction. The loans offered to those three banks guaranteed from the state budget, coupled with the risk of nationalisation of Banca de Economii will unavoidably result in higher public debt and fewer financial resources available for social aid. Besides that, there is still the risk of inappropriate management of the public impact of the liquidation of the three problematic commercial banks. In the end, in the context of weaker trust between the

two banks of the Nistru River, it is possible that Tiraspol leaders will threaten or even use their energy leverage to put pressure on the constitutional authorities of the country. To prevent the materialization of the risks to the economic security of the country, the projects on the interconnection of the Moldovan and Romanian energy systems must be completed for both natural gas transportation and electricity transmission. It is also necessary to prevent the situation in which the reunification of the country is conditioned – by certain international stakeholders – on Moldova’s recognition of the electricity debts of the region as the country’s state debt. In order to reduce vulnerability to drought, which is the main risk as far as the climatic issues are concerned, the agricultural subsidy policy must be reviewed, and appropriate trainings for farmers on irrigation should be organized. Acknowledging that the public trust in the state institutions has for a long while now been negative because of the embezzlements that occurred in the banking sector during the past four–five years, this trust can be restored only after an independent assessment of the way different control and regulatory bodies carried out their mandates, followed by reasonable “organizational conclusions”. In the end, the ownership relations need to be clarified and made more transparent in both the financial and energy sectors, in order to prevent any new surprises in the future.

Labour Market and Social Protection

In recent years the political and economic risks threatening the Republic of Moldova due to workforce migration toward the Russian Federation increased significantly. This situation occurred not only because the bilateral relationship deteriorated when Moldova signed the Association Agreement in 2013, but also due to the economic downturn in Russia as a result of the sudden decrease in the oil price in 2014 . Also, the economic risks began to prevail over the political ones because of labour migration from Moldova to that country, as the current crisis turned from cyclical to structural in nature. In the light of these developments, the advantages gained in the past by Moldova from migration turned into risks that could undermine the macro-financial stability of the country. Therefore, in order to reduce the consequences of a shock caused by lower remittances and an eventual return of migrants, as well as to prevent any such scenarios from taking place any time in the future, it is imperative to diversify the migration flows geographically, to use the remittances more efficiently and to invest greater efforts into migrants’ re-integration.

Human Capital

Education is the leading sector in terms of the reforms promoted and implemented over the recent years. At the same time, the reforms are being implemented at a different pace in each level of education, which generates new challenges. Thus, higher requirements imposed on high school students at graduation without having significantly improved the quality of vocational education lead to higher numbers of persons without specialization. Meanwhile, the problems in vocational education are the most stringent, and they were given special attention in 2014 when the concept of dual education was developed, along with the social dialogue platform in technical vocational education, the methodology for the development of the national qualifications framework for vocational education and several occupational standards. Nonetheless, the slow implementation of the most important measures significantly hinders the eradication of the existing problems. On the other hand, due to the imbalance between the labour force offer and demand, coupled with the poor quality of higher and vocational education, the share of employed population with higher qualifications than those requested at the workplace increased.

The current context, namely the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, provides certain opportunities to Moldova, the harnessing of which depends on the country’s human capital. However, the education system, in particular the vocational level, is not ready or flexible enough to produce qualified specialists and to respond quickly to the new needs of the market. On the other hand, the private sector is unable to keep the most valuable employees, who are looking for opportunities beyond the borders of the country in the hope of finding better-paid jobs. Thus, the main medium-term challenge is to increase the competitiveness of human capital by intervening in two directions: increase the quality of education and make companies more profitable so that they would be able to pay competitive salaries and contribute to

the lifelong training of their employees. At the same time, the main risks are the ever-growing intention of highly qualified people to migrate and the resignations of talented and experienced civil servants from public institutions, which will slow down the implementation of the reforms the Government has launched or is committed to implementing. Moreover, more and more migrants are returning, mainly from Russia. Most of them lack qualifications or have qualifications that are not acknowledged or demanded by the labour market of the Republic of Moldova.

Environment and Energy Efficiency

The forecast for future climate evolution in Eastern Europe shows an increase in climate change, characterized especially by higher temperatures. In this context, the impact of climate change will be more acute and the changes in temperature and precipitation will more intensely affect socio-economic activity. The Republic of Moldova is very vulnerable to climate variability, and more intense climate change could generate constraints to the country's development. This is due particularly to the socio-economic importance of agriculture, as over half of the country's population lives in rural areas and about one-third of the workforce is employed in agriculture. On the other hand, the components that could provide some resistance to climate change, such as the water and forestry resources, are in poor condition. Last but not least, Moldova is a poor country, with lowest GDP per capita in Europe, which makes it more difficult to carry out any measures to adjust to climate change.

While the risks related to climate change are long-run ones, energy security is facing immediate danger. Moldova imports a large part of its energy resources, and the unstable situation in the region is a risk for the domestic energy sector. Russia is the main gas supplier for Moldova, and Ukraine is both the transit country for the Russian gas and a supplier of electricity. Due to the tense relations between Russia and Ukraine, the electricity supply to Moldova is endangered. Although it is not very likely, the rather unfriendly relations between Tiraspol and Chisinau could block the supply of electricity from the left to the right bank of the Nistru River. At the same time, the strong depreciation of MDL will cause a significant increase in tariffs for energy. This increase will have especially negative social consequences and it will increase energy poverty. Financial pressure on low-income people will increase, and ultimately the population's access to energy could significantly decrease. In this context, the energy problem will be difficult to ignore, and the Moldovan authorities should begin looking for a solution to this range of challenges.

Internal and External Politics: European Enthusiasm on the Outside, Imitation of Reforms on the Inside

The period under review featured significant changes in the political arena, characterized by decreasing share in the Parliament of pro-European political forces and by the strengthening of the pro-Russia parties' position in the public and political space. The corruption of institutions, or their "capture" by various obscure interests, and the uncertainties associated with political instability and European integration created an environment that was not conducive to reform (justice sector, fighting over corruption, etc.). Thus, the European integration agenda was severely compromised, as the negative effects of Russia's destabilizing activities worsened in the region, which is easy to see in Ukraine. These effects amplified the risks to the security of democratic institutions and to national security as regards: (i) the spread of instability at the country level; (ii) the onset of a political crisis due to the possible failure to elect a president in 2016; (iii) failure to continue with the European integration path; and (iv) the deteriorating situation in Ukraine. In order to anticipate and/or minimize the impact of the aforementioned risks, the following conditions need to be met: (a) democratization of political parties; (b) strengthening of democratic institutions; (c) consolidation of the European bloc and counteracting Russian propaganda; and (d) development of a strategic dialogue with Ukraine.



Risks in the Banking Sector and Implications for the Country's Economic Security

THROUGHOUT 2014 AND IN THE BEGINNING OF 2015, THE MOLDOVAN BANKING SYSTEM WAS DESTABILIZED BY A SERIES OF BANK FRAUDS THAT MIGHT UNDERMINE NOT ONLY THE ECONOMY, BUT EVEN MOLDOVA'S INTEGRATION INTO THE EU. THE FACT THAT FOR ABOUT A YEAR AND A HALF THREE BANKS OF SYSTEMIC IMPORTANCE COMMITTED FRAUD WORTH ABOUT MDL 13.3 BILLION, OR USD 950 MILLION (12% OF GDP), IS A REAL REGULATION FAILURE OF THE NBM. THESE EVENTS ARE ALSO A DIRECT THREAT TO THE SOCIAL AND ECONOMIC SECURITY OF THE STATE, CONSIDERING THE BUDGETARY AND MACRO-FINANCIAL IMPACT OF THE CRISIS. IN THIS CONTEXT, IT IS IMPORTANT TO UNDERSTAND THE LEGISLATIVE GAPS AND INSTITUTIONAL VULNERABILITIES THAT ALLOWED THE DECAPITALIZATION OF THE BANKS CONCERNED AND WHAT SHALL BE DONE TO TRANSFORM THE BANKING SYSTEM FROM A THREAT INTO AN OPPORTUNITY FOR ECONOMIC SECURITY AND DEVELOPMENT.

Analysis of the Main Trends and Developments

2014 will be remembered in the banking history of the Republic of Moldova: in November, three banks (BEM, BS and UB), representing more than one-third of the country's entire banking system, ended up almost bankrupt, and the NBM established a special administration regime for them. It is important to mention that the crisis was not caused by external or macroeconomic factors: during 2013 and 2014 the Moldova's GDP increased by 9.2% and 4.6% respectively, while the conditions of the rest of the banks did not change essentially, and some indicators even showed improvements.

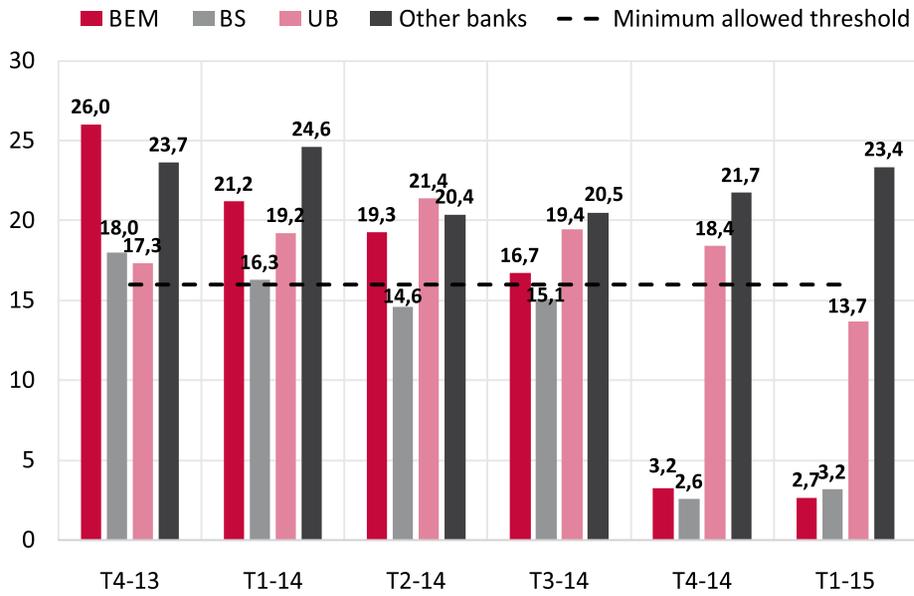
That the crisis of those three banks was rather isolated and did not have systemic origins or repercussions is revealed by the fact that starting in the second half of 2014, the banking system capitalization, except for BEM, BS, UB, as measured by the risk weighted capital adequacy,² started to grow (Figure 1). At the same time, the quality of the credit portfolio, measured by the share of non-performing loans in total loans, improved (Figure 2).

The critical situation of the three banks was rather caused by a series of frauds that aimed at the decapitalization of the banks by awarding extraordinarily large loans. This was done with the involvement of certain off-shore companies, local companies, and foreign banks and, most likely, with the support of certain representatives of state institutions. Essentially, the financial engineering that brought BEM, BS

² The ratio between the total regulatory capital of the bank and the volume of the assets at risk.

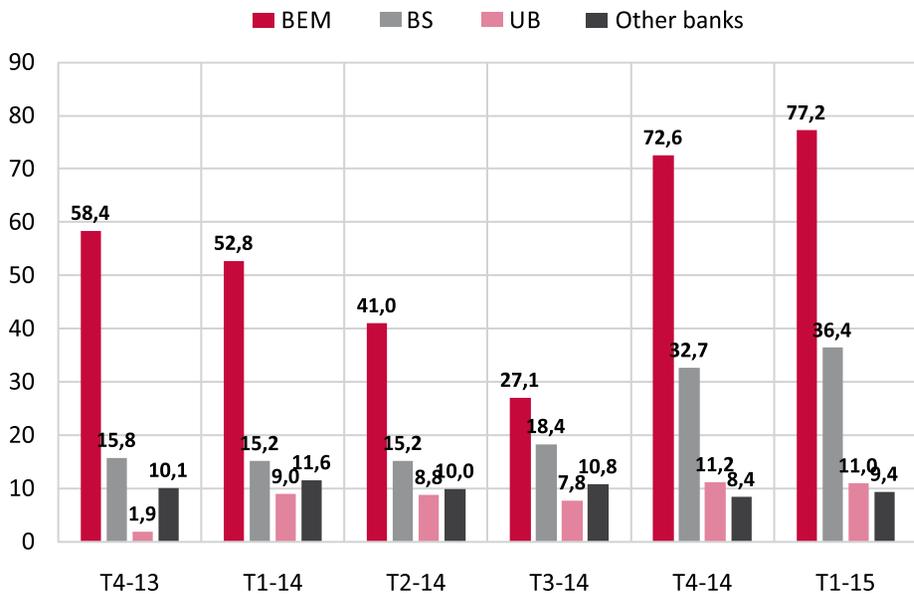
and UB to the verge of bankruptcy was about the artificial increase of the liquidity indicators by interbank deposits and masking of the non-performing loans by transferring them to off-shore companies. The final goal was to artificially increase the lending capacities of the three banks and to extend loans in enormous amounts to a group of affiliated companies. Thus, as a result of the concerted efforts of the shareholders, loan borrowers, some off-shore companies and some banks in Russia and Lithuania, the volume of loans granted by BEM, BS and UB by the end of 2014 was about MDL 13.4 billion (~USD 950 million). This figure shows the need for a recapitalized banking system (MDL ~4-15 billion) and the emergency loans given by NBM to those three banks to avoid their going into default (MDL ~10 billion).

FIGURE 1. Risk Weighted Capital Adequacy (min. 16%), %



Source: NBM

FIGURE 2. Share of Non-Performing Loans in Total Loans, %



Source: NBM

The embezzlement of funds from BEM, BS and UB was based on five fundamental factors, described below:

- 1. Inefficient management of BEM before the crisis.** The crisis of those three banks was generated by some older problems of BEM, which worsened after a series of events that occurred from 2009. In particular, BEM's financial position was undermined when it took over the assets and payment obligations of Investprivatbank (the bank that went bankrupt in 2009) and intensified imprudent loaning starting in 2010.³ The situation worsened with the conflicts between the shareholders and the hostile takeover of BEM shares from May 16 to August 9, 2011⁴ and in the spring of 2012.⁵ This resulted in an important equity stake being owned by some off-shore companies, which then transferred it to some companies in the Russian Federation. Later, the critical condition of BEM served as the main reason for giving up the Government's majority of shares to investors from the Russian Federation with a suspicious reputation. Soon after, some BEM shareholders used their shares in the bank to guarantee the loans obtained by other companies from BS.
- 2. Obscure changes in the structure of BEM, BS and UB shareholders.** The restructures and shareholder fragmentation in the three banks, which occurred in mid-2013, created the required preconditions for the banking frauds. Many suspicious companies and individuals bought under 5% of shares in order to avoid the obligation to get NBM's permission. More than that, most of the new shareholders used loans received from off-shore companies to pay for their procurements in order to hide the beneficiary owners of the shares.
- 3. Violation of the basic principles of corporate governance at BEM, BS and UB.** Apparently, the new shareholders acted in a concerted manner, prompting the banks' management to grant considerable amounts of loans to a series of companies affiliated to shareholders, and breaking all possible prudential norms.
- 4. Financial engineering and artificial increase of the lending capacity of BEM, BS and UB.** The huge amounts of fraudulently granted loans were based on a series of financial engineering that had two goals at least: (i) increase the crediting capacities through interbank deposits by engaging local and Russian banks; and (ii) conceal the liquidity gaps, the exposure levels and the non-performing loans by transferring non-performing loans to off-shore companies against the inflow of new liquidities, which later on were turned into new loans or interbank deposits.
- 5. Delayed and inadequate reaction on behalf of NBM and other relevant institutions.** The fact that three banks of systemic importance defrauded the banking system by about MDL 13.3 billion, without essential constraints and within about a year and a half, points to NBM failure to ensure banking system regulation and oversight. Although NBM intuited or even knew about the transactions going on inside those three banks, it intervened too late and insufficiently to stop the embezzlements. In essence, its actions were limited to issuing warnings to BEM, BS and UB, alerting the Government

³ A report of the Court of Accounts issued in the beginning of 2011 drew attention to the fact that low attention to the financial condition of loan beneficiaries and negligent attitude towards the evaluation, verification and maintenance of collateral were characteristic of the lending activity of BEM (source: "Epopeea Băncii de Economii sau cum au prăbușit gigantul"/"Epic of Banca de Economii or how they crashed the giant", Expert-Grup, 2014).

⁴ On the basis of court judgments issued by the Causeni Court of Law, a part of BEM shares were transferred to a company called Rietel Limited, registered in New Zealand. Later, Rietel Limited handed the greatest part of the shares over to Lectom LTD, a company registered in Great Britain (source: "Epopeea Băncii de Economii sau cum au prăbușit gigantul", Expert-Grup, 2014).

⁵ On the basis of court judgments the 18.54% of the shares owned by Rietel Limited and Lectom LTD were transferred in equal shares to four Russian companies (source: "Epopeea Băncii de Economii sau cum au prăbușit gigantul", Expert-Grup, 2014).

and the National Financial Stability Committee, and making some legislative adjustments during 2013-2014, which did not, however, manage to stop the bank frauds. At the same time, considering the magnitude of embezzlements, NBM did not use all the tools allowed by the law to ensure the stability of the banking system. For instance, the Law on Financial Institutions (Article 38) allows NBM, besides issuing warnings, to levy fines on banks, to limit or suspend the activity of banks or to even withdraw an activity license if it is found that the bank violated laws, engaged in risky and suspicious actions that affected interests, or committed other violations. Besides, Article 15 of the same law allows NBM to block the activity of the shareholders (regardless of their quota share in the share capital) if it is found that they acted in a concerted manner – which is obvious in the case of the frauds involving those three banks. However, for reasons that are hard to understand, NBM did not use all the tools it had and instituted a special administration regime for BEM, BS and UB only by the end of November 2014, after the bank frauds had already been committed.

Wider Implications and Risks

Given that about 12% of GDP disappeared from the banking system and the assets of three banks account for about 35% of the assets in the entire banking system, the risks to the macroeconomic situation and to the entire country are obvious.

- **State debt risk and the country risk, implicitly.** In order to avoid bankruptcy, NBM granted to BEM, BS and UB emergency loans worth MDL 9.6 billion in November 2014, guaranteed by the Government. These are worth about 9% of country's GDP, i.e. 34% of the state budget revenues in 2014. If those three banks are not be able to repay the money (which is quite likely because of their deplorable financial state), the guarantees will be converted into state debt. The state debt will substantially increase the level of indebtedness of the Government: the proportion of the state debt in GDP might increase from 32% in 2014 to 48% in 2015 and 51% in 2016.⁶ With a budget deficit, current account deficit, low level of official reserve assets and risks to the national currency, a higher level of indebtedness fuels the country risk.
- **Risk of a long-lasting fiscal shock.** According to estimations, the eventual fiscal shock will last, and it will take 10 years to return to the present-day parameters of deficit and public debt proportion in GDP. This will have a triple impact on the economy: (i) significant increase of budgetary expenses to serve the state debt; (ii) adverse effects upon the real sector's lending because of the competition between the Government and the private sector for commercial banks' loans; and (iii) increase of the fiscal pressure and reduction of public investment in the coming years.
- **The adjustments to the regulatory framework are not enough to prevent similar frauds in the future.** For instance, the courts of law can continue to issue decisions that can affect the corporate governance of banks and the interests of depositors, NBM decisions can be suspended by court judgments, verifications of shareholders' quality continues to be performed only on those who hold an equity stake exceeding 5% of the share capital, the shares of the commercial banks can be pledged further or purchased using loans provided by off-shore companies, and the notion of concerted activity continues to be quite vaguely defined by the regulatory framework. These are the main legislative and institutional gaps that continue to fuel the risk of bank frauds taking place again and thus generate risks to the economic security of the country.

- **The risk of national currency depreciation and inflationary effects.** The period after establishment of the special administration in BEM, BS and UB coincided with the rapid depreciation of the national currency: between November 2014 and May 2015, MDL lost 17% of its value. The official assets decreased by about one third, i.e. USD 875 million, during the same period of time. A possible cause is that the fraudulently awarded loans were exchanged into foreign currency, triggering the exaggerated demand for foreign currency. Besides the depreciation that has already occurred, the depreciation risks will persist in the near future because the official reserve assets have reached the minimum allowable level (about three months of consecutive imports), which limits the room for maneuver if the national currency is exposed to additional shocks. Besides, the depreciation of the national currency has already given rise to significant social costs because of the inflationary pressures: the level of inflation is going to exceed the NBM's targeted level and will reach 9–11% in 2015. Those costs will be amplified by an anticipated recession in the same year, but also by the restrictive monetary policy caused by inflationary pressures.

Policy Recommendations

The immediate policy recommendations relate to addressing the issue of the troubled banks and closing of legislative gaps and elimination of the institutional vulnerabilities that allowed the deterioration of BEM, BS and UB conditions in order to prevent similar issues in the future:

- **The policy decision about fixing the issue of BEM, UB and BS should meet the following three fundamental criteria (3 Rs): (i) Recovery of all deposits of firms and individuals; (ii) Responsibility of persons and institutions involved in the frauds responsible; (iii) Reform the banking supervision and regulation.** The first principle states that, no matter what the policy options are, each individual and firm that have deposits in the troubled banks should be able to get the money back within a reasonable timeframe. This assurance is crucial in order to avoid panic and negative spillovers for the entire banking system. The second principle implies that all individuals with decision-making power, who were involved in the fraudulent transactions or did not intervene on purpose to prevent them, should bear adequate responsibility, according to the Penal Code. This principle implies also the fact that the financial costs for recovery of all deposits should be borne by the central bank – the key institution responsible for the efficient regulation and supervision of the banking sector that could act more decisively in order to prevent the frauds. The third principle is elimination of loopholes and comprehensive reform of the banking regulatory and supervisory framework in order to prevent similar crises in the future (discussed in the next points). Overall, the three troubled banks should be liquidated, following the “3-R” discussed above: 1. all deposits should be recovered; 2. individuals and the institutions involved should bear full financial and penal responsibility, without tapping the taxpayers pockets; 3. banking supervision reform should start immediately.
- **Strengthen the NBM independence and accountability** NBM independence can be strengthened by eliminating the possibility to suspend NBM decisions related to the regulation of the banking sector by any court of law. A relevant example was the suspension during the period February 10, 2014 – December 1, 2014 of the NBM Board Decision limiting the banks' exposure to 15% of Total Normative Capital. This allowed BEM, UB and BS to manipulate the liquidity and capital indicators during the above-mentioned period. Furthermore, it is necessary to eliminate the practice of having the NBM decisions endorsed by the Ministry of Justice, which is against the best practices related to the independence of central banks. The NBM Board must be clear of any political interference, while its members must not have any direct or indirect political affiliations. NBM independence strengthening must take place along with the toughening of its responsibilities. It is particularly necessary to establish a mechanism for NBM performances assessment by an independent

company. This mechanism would ensure accountability and would allow an independent assessment of the institution, especially in crisis conditions similar to those of BEM, BS and UB.

- **Close all “loopholes” used by off-shore companies to interact with commercial banks.** For this, it is necessary to prohibit procurement of commercial banks’ shares using loans from off-shore companies, pledging of bank shares, ownership of shares in commercial banks by off-shore companies, transfer of credit portfolios to off-shore companies and lending to off-shore companies. Permissive legislation in this area and imprudent regulation by NBM were the fundamental factors that allowed BEM, BS and UB to be defrauded. The suggested restrictions will prevent similar situations from happening in the future.
- **Establish clearer criteria for the identification of concerted activities.** The legislation must be more specific with regard to the identification of concerted activities in order to allow NBM to intervene more promptly to stop any bank frauds. Moreover, NBM must strengthen its investigation capacities in order to identify such practices, which would allow it to use all the tools envisaged by law to prevent crises and bank embezzlements.
- **Ensure the professional independence and personal protection of NBM civil servants.** In order to ensure efficient bank governance, strengthening NBM capacities and independence is not enough. Those who are responsible for preventing and fighting bank frauds, which are usually extraordinarily large, should be provided with immunity. The relative passivity of NBM during 2013–2014 was also caused by the fact that the employees in charge of regulation do not have enough personal protection and professional independence. In parallel, it is necessary to increase the level of personal accountability of the regulator’s officials in order to improve the regulatory process at all levels of NBM.
- **Define an integrated vision regarding the strengthening of banks’ stability and the enhancement of the country’s financial security.** This implies enhancing the communication and exchanging operative information among the NBM, the National Commission for Financial Markets, the Ministry of Finance, the Financial Stability Committee and the Supreme Council of Security about the banking system and the three banks, in particular. All the institutions concerned must adopt a single plan of measures to identify the optimal solution concerning the crisis in BEM, BS and UB, as well as strengthen the country’s financial security. Besides closing the aforementioned legal and institutional gaps, financial security strengthening implies:
 - strengthening the country’s foreign currency reserves;
 - removing barriers that prevent foreign banks from entering the banking market;
 - developing the non-bank financial market;
 - raising the coverage of deposit insurance;
 - encouraging long-term placements in banks through the fiscal policy;
 - increasing the penalties for fraudulent bank management and concerted activity, and ensuring that the penalties are also applicable to middle managers and officials directly involved in bank frauds;
 - stricter regulation of banks’ exposure to affiliates.



Economy

THIS CHAPTER STARTS WITH THE ASSESSMENT OF THE CURRENT SOCIAL AND ECONOMIC CONDITIONS IN MOLDOVA AND WITH THE IDENTIFICATION OF THE MOST IMPORTANT TRENDS. CONTINUING THE TOPIC OF THE REPORT, THIS CHAPTER FOCUSES ON THE ANALYSIS OF THE RELEVANT ECONOMIC SECURITY ASPECTS. THE CHAPTER ENDS WITH THE MAIN RECOMMENDATIONS FOR STRENGTHENING THE ECONOMIC SECURITY OF THE POPULATION, COMPANIES AND THE STATE.

Current Economic Situation: Main Aspects

Despite the expectations of most experts and international organizations, and in spite of a very high base of comparison a year earlier, the Moldovan economy achieved an impressive growth of 4.6% in 2014 (Table 1). The growth was mainly due to the positive developments in the manufacturing sector, while the services and construction sectors were quite weak. The agricultural sector certainly surprised economic observers as it progressed by 8.2%, which occurred after the recovery growth of about 38% in 2013. As for the demand side, the growth by 2.9% of final consumption is respectable, although it is weaker than in 2013, which means that consumers became more cautious with their wallets. The 10% growth of gross fixed capital formation could be considered really remarkable growth if it were not almost entirely due to the public capital investments and to private ones. The austerity that is hovering gravely over the public budget in 2015-2016 (and maybe even beyond) will lower the already scarce investments in infrastructure. The current internal conditions are worse for economic growth than after the 2009 crisis, which might trigger in 2015 a genuine economic recession.

Particularly since the conditions in foreign markets are very inauspicious – war in Ukraine, trade sanctions imposed by Russia on Moldovan exporters, worsening economic situation in Russia and lack of any signs of sustainable economic recovery in Europe – exports grew in 2014 by 1% only, and decreased in the first quarter of 2015 by 15%. Moldovan exports on the main markets are in freefall: Italy – minus 25%; the Russian Federation – minus 50%; and Ukraine – minus 70%. The shrinking of remittances by one quarter mirrors yet again the worsening regional economy, although judging by the uneven rates of remittance declines – minus 34% for those coming from Russia, compared with minus 11% for the ones coming from Italy – the migrants to the East seem to be in a worse situation than those in the West.

Notwithstanding the complicated state of affairs in Europe and Russia, the labour market indicators do not show another massive return of migrants to Moldova. Actually, as in 2009, when only 10–15% of migrants returned temporarily, a mass return of Moldovan migrants is not likely regardless of the conditions in the host nation. As revealed by the 2014 State of the Country Report, the difference between the income earned in Moldova and in Central and Eastern Europe is large enough, and the convergence speed low enough, that a massive return of the migrants is practically impossible, and thus the local labour market is being kept “safe” from shocks. The migrants will try to adapt to the new conditions, to naturalize, to go

to another host country, i.e. do anything but return to Moldova where the opportunities are even smaller. The unemployment rate dropped to 3.9% in 2014, which was the minimum throughout the data collection period since 1999. Despite the fact that many Moldovan workers are impeded by the Russian migration authorities from returning to the Russian Federation, they seem to find less legal ways to go back to Russia, in spite of the worsening situation in the Russian construction sector. The employment rate has stayed very low, under 40%, although, like in 2013, a certain improvement of the labour market was registered in the areas that have free economic zones. The average income continued to grow, while the national poverty incidence continued to decrease, dropping according to our estimations to a little over 10%, compared to 12.7% in 2013. The preliminary data for 2014 confirm yet again that the social aid granted according to the means-testing mechanism is a very efficient policy tool that allows for a robust reduction of poverty.

Precisely because of this, the progress made with poverty reduction is very vulnerable to instability of the public budget. The state budget deficit announced for 2015 – estimated at around 2.8% of GDP – is bigger than in the previous years. However, it takes into account neither the major risks hovering over the public budget, nor the public debt formed due to the inefficient management of the difficult situation in the banking sector during 2014–2015, which brought about an enormous quasi-fiscal deficit that is not yet reflected in the public finance statistics. It is almost certain that the state budget for 2015 will need to be revised and resubmitted to the Parliament for approval.

The previous edition of this report underlines that the apparent better situation on the lending market (lower interest rates, easier access) from 2013 and the first half of 2014 must be interpreted carefully, as the real situation in the banking sector is very fragile. This is currently confirmed by the statistics. The level of bank lending to the economy dropped sharply, from 40.3% of GDP in 2013 to 36.6% in 2014. In 2015, the restrictions on bank loans will be even higher, as confirmed by the major increase of the interest rate from 9.8% in November 2014 to 13.8% in May 2015. Higher interest rates will make the bank credit less accessible for firms and consumers, which will further dent the economic growth.

TABLE 1. Main Indicators Monitored regarding the Economy of the Republic of Moldova

	2012	2013	2014
GDP, change over the previous year, %	-0.7	8.9	4.6
Agricultural production, change over the previous year, %	-22.3	38.3	8.2
Industrial production, change over the previous year, %	-1.9	6.8	7.3
Volume of services provided, change over the previous year, %	2.7	6.0	3.6
Volume of construction work, change over the previous year, %	0.7	5.1	1.0
Household consumption, change over the previous year, %	1.0	6.5	2.9
Gross fixed capital formation, change over the previous year, %	1.8	3.3	10.1
Foreign direct investments, net inflow, % of GDP	2.1	2.7	2.6
Exports of goods and services, % of GDP	42.5	43.8	42.1
Imports of goods and services, % of GDP	84.5	81.5	79.8
Consumer Price Index, change over the previous year, %	4.6	4.6	5.1
Total commercial bank loans, % of GDP	39.7	40.3	36.6
Unemployment rate, % of the economically active population	5.6	5.1	3.9
Employment rate, % of the population aged over 15 years old	38.4	39.3	39.6
Current account/GDP, %	-8.8	-6.6	-8.0
Budget deficit/GDP, %	-2.1	-1.8	-1.7
Average rate for bank loans, %	13.3	12.3	10.6
Average rate for bank deposits, %	7.6	7.2	5.7

Assessment of the Main Threats to the Economic Security of the Republic of Moldova

To put it very simply, economic security can be defined as the extent to which citizens, companies and the country all together are protected from substantial economic losses caused by revenues' volatility and/or unforeseen major expenses (e.g. for health, consequences of natural and technological disasters, etc.).⁷ The lack of savings or assets that could be used to cushion the impact of shocks is the immediate cause of economic insecurity.

It is worth highlighting that the risks to economic security are constantly changing, and their correct assessment is imperative, particularly in a country that does not have too many financial and human resources to manage these risks. For instance, the problem of focusing the exports on the Russian market only, which was typical of the mid-1990s, has been overcome, as the geographical structure of foreign trade is almost perfectly aligned to the commercial gravitation theory. Thus, the trade sanctions imposed by the Russian Federation in response to the association of Moldova and the EU had a moderate economic impact. Another popular belief is that the high number of Moldovans working in Russia enhances the country's vulnerability to political pressures exerted by Russia. Because of the political costs and technical complications, Russia can neither mass expel these workers nor block the transfers to their families in Moldova.

An analysis of evolutions (and entanglements) that have occurred since independence suggests the following major vulnerabilities of the Moldovan economy:

- Total dependence of the Moldovan economy on the gas supplied from the Russian Federation, magnified by the fact that the "faucet" can be easily turned off by Transnistria;
- Major dependence of the industrial and household sectors on the electricity supplied from Transnistria (and until not long ago, by Ukraine);
- Enormous debts accumulated by Transnistria for the natural gas supplied by the Russian Federation (which, in certain country reintegration scenarios, could easily turn from corporate debts into state debt);
- Increased exposure of the agricultural sector to climate changes due to the increase of the frequency and intensity of extreme weather conditions or disasters (in particular droughts), shortage of own water resources, and the major risks of industrial pollution of the Nistru River before it enters the Moldovan territory.

These vulnerabilities have materialized over time to a greater or lesser extent, and were also intensified by the internal institutional weaknesses that have become more visible since 2010. The institutional weaknesses include:

- Generalized and endemic corruption, coupled with decreasing efficiency and social equity in public service provision and the incapacity of state institutions to react to internal and external risks and challenges;
- Almost full takeover of the control over state institutions by obscure interests, undermining the Government's capacity to take decisions for public interest and the oversight, control and regulating institutions' capacity to enforce rules;

⁷ Jacob S. Hacker et al, "The Economic Security Index: A New Measure for Research and Policy Analysis", Federal Reserve Bank of San Francisco, Working Paper Series, Working Paper 2012-21.

- The opacity of property rights in the financial sector and the predominance of the Russian capital of shadow origins in certain key financial institutions, with all the repercussions witnessed in the recent years; currently, about 40% of Moldovan banks' capital is owned by Russian companies directly affiliated to the political power centers in Moscow, which seem to have found the Moldovan banking system very useful to carry out international money laundering operations and to suck in considerable financial resources;
- The state's incapacity to identify and tax revenues and ownership in a manner that is efficient and fiscally fair, which leads to underfunding of public services, increased inequality and an increasingly frustrated population;
- The uncertain definition of property rights in many sectors, which reduces the welfare level of citizens and leads to foregone investment opportunities. For instance, in the gas sector the investments made by the population in gas supply pipes are not properly accounted for, which artificially reduces Moldova's quota share in the capital of the Moldova-Gaz company.

Medium-Term Challenges for Economic Security

There are three major risks that threaten economic security and that could materialize in the medium term.

- The guarantee provided by the Government for the purpose of saving BEM, UB and BS shall almost certainly be transformed into state debt, with all the repercussions concerning country risks, budget and citizens' welfare. The need to service this debt will increase even more the cost of capital in the Republic of Moldova.
- Another area that may pose risks is Transnistria. Once Ukraine formally cancels its agreements with Russia, by which Kiev allowed Russian troops to pass through its territory to reach the deployment point of Russian peacekeepers and troops in Transnistria, the tension between Chisinau and Tiraspol (backed by Moscow) will inevitably increase. It is possible that when found face to face with the risk of losing their "independence", the leaders from Tiraspol will want to use energy leverage to enlarge their room for maneuver in its negotiations with Chisinau.
- The management of the crisis caused by the decapitalization of those three commercial banks is a major source of risks to the economic security. The most likely scenario for the settlement of the banks' issues is their liquidation one by one, because they are technically in default. (Nationalization of the Banca de Economii, as recently proposed by leaders of the LDPM and DPM, is a risky option, because it is not clear if the Bank, weighted down by non-performing loans, has a positive net economic value at all and because the nationalization will increase even more the state debt). It is possible, however, that certain political forces will want to make use of these processes and try to fuel the concerns that the depositors of these banks will most definitely have. It is also not clear to what extent other commercial banks are exposed to the same problems as the three banks taken under NBM's direct administration.

How Can Economic Security be Improved?

The main recommendations for decision makers in order to increase economic security are the following:

- Prioritize the distribution of resources to complete the project of connecting the energy systems of Moldova and Romania, not only for gas, but particularly for electricity.
- Develop a legal strategy of non-acknowledgment of Transnistria's debt for the gas supplied by the Russian Federation as a state debt of the Republic of Moldova.

- Adapt the agricultural subsidy policies to take account of the sound use of water resources and provide subsidies only for the implementation of some efficient and economic irrigation solutions (e.g. drip irrigation); the subsidies for capital investments must be accompanied by a national farmer training program in the field of irrigation.
- Identify an external independent assessment mechanism for all state control bodies, regulators and other relevant public institutions; the twinning opportunities provided by the Association Agreement are the most promising in this respect.
- Identify and publicly present the information on the actual owners of financial institutions – not only banks, but also insurance, leasing and capital companies, in order to prevent provision of loans to affiliated parties.
- Perform international audits of the property rights in the critical sectors, starting with the energy sector.



Labour Market and Social Protection

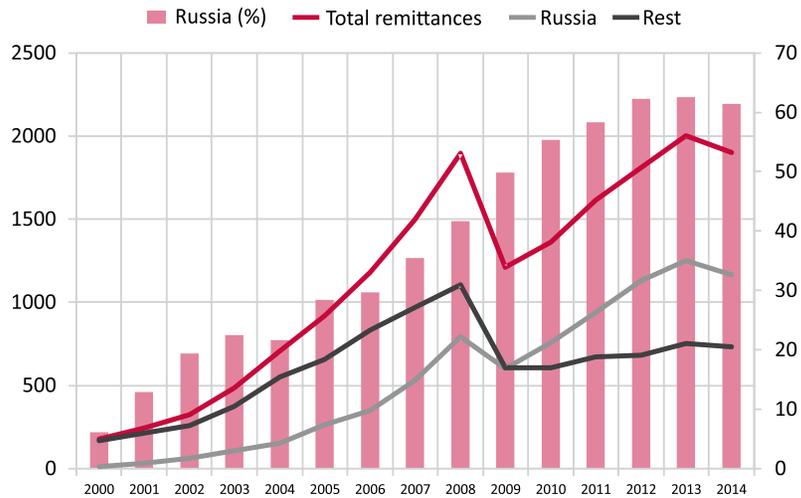
POPULATION STANDARD OF LIVING AND THE SITUATION ON THE LABOUR MARKET ARE IN A VICIOUS RELATION OF DEPENDENCE LABOUR ON EXTERNAL MIGRATION AND REMITTANCES. THIS GRADUALLY DEVELOPING PATTERN RESULTED IN EXCESSIVE CONCENTRATION OF MOLDOVAN MIGRANTS IN THE RUSSIAN FEDERATION, THUS INDIRECTLY ANCHORING THE MACROECONOMIC SYSTEM OF OUR COUNTRY IN THE RUSSIAN ECONOMIC CYCLES. THE DECREASING PRICES FOR HYDROCARBONS AND THE SLOWER ECONOMIC GROWTH RATES IN RUSSIA WILL HAVE A NEGATIVE MID-TERM IMPACT ON THE VOLUME OF REMITTANCES AND WILL INDIRECTLY AFFECT THE LEVEL OF HOUSEHOLD INCOME IN THE REPUBLIC OF MOLDOVA.

Analysis of Key Developments and Trends

Labour migration and the increase of remittances have always had a positive impact on people's standard of living, as well as on the condition of the labour market. One of the main drawbacks of external migration in the past decade is, however, the extremely asymmetric nature of the migrant flows, as the Russian Federation prevails among the migration destinations. The importance of this country as a host destination increased in recent years, including 2014, when it reached a historic maximum of hosting 68.09% of the total labour force migrating from the Republic of Moldova.

The inescapable result of the current migration pattern is the increase of the dependence on the remittances coming from the Russian Federation, which is a major risk for the country's economic security. These trends amplified after the 2009 crisis, when the Russian economy recovered more quickly than the EU economy thanks to the recovery of oil prices. Starting with this year, the share of remittances coming from Russia exceeded other countries, growing by 10 percentage points during the past four years to 62.5% in 2013 (Figure 3). In 2014, however, because of the economic downturn in the Russian Federation, the remittances decreased by 5%, and in 2015 they might decrease by more than 20%, thus exerting great pressure on the economic and social situation in the country.

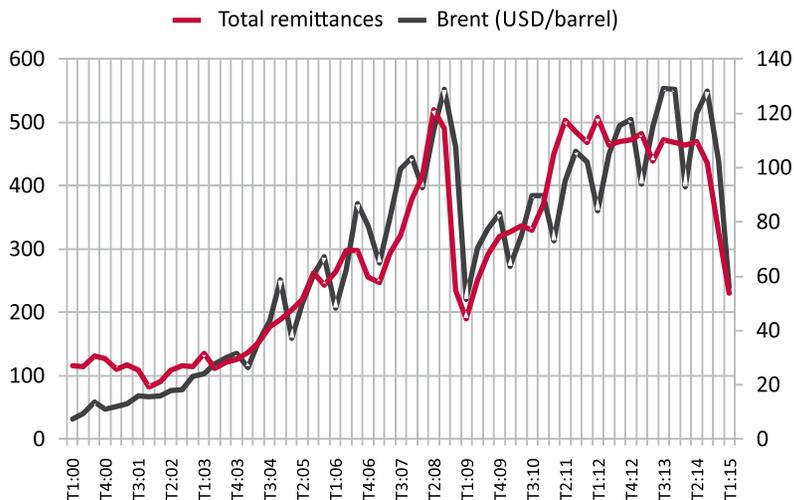
FIGURE 3. Dynamics of Remittances⁸ (million USD, left axis) and Share of the Russian Federation in These Flows (% , right axis)



Source: Authors' calculations based on NBM data

The major share of remittances coming from the Russian Federation grounds Moldova's macro-financial system in the economic cycles of that country. This is observed from the perfect correlation between the dynamics of remittances and the oil prices that have decisive impact on Russia's economic performance. If until the 2009 crisis this relation was explained mainly by the economic growth around the world, which stimulated both oil prices and remittances, then since 2010 the causes have been related to the factors specific to the Russian economy (Figure 4).

FIGURE 4. Link between the Dynamics of Remittances (USD million, left axis) and Oil Price (USD/barrel right axis)



Source: NBM

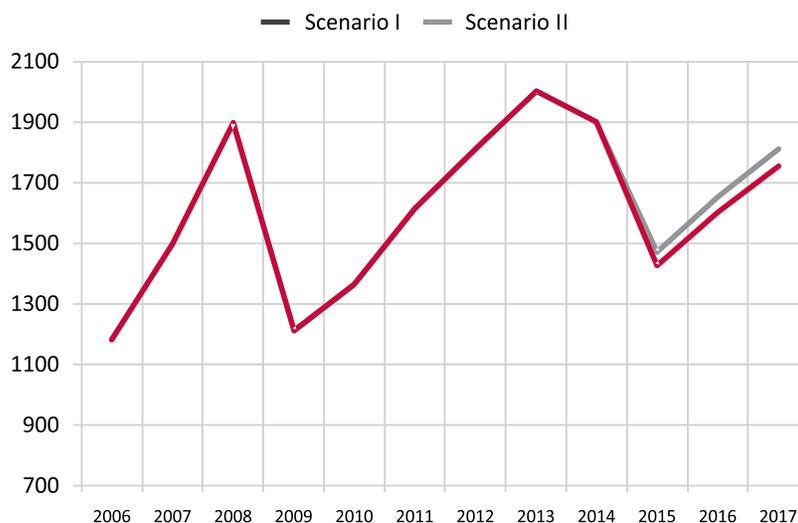
⁸ The remittances were calculated on the basis of the balance of payments, taking into account the following components: remuneration for work, personal transfers and migrants' transfers.

In recent years, the situation of the Russian economy began to play the main role in increasing the interdependence between remittances and oil prices. This manifests itself by increasing the correlation coefficient between the dynamics of remittances and the oil price from a non-significant level (0.09 points) for 2000 – 2009, to a quite close correlation (0.77 points) for 2010 – 2014. However, for remittances from other countries, the correlation coefficient decreased from 0.50 to 0.44 for the respective periods. Thus, the growing dependence on the Russian economy, in terms of labour migration, increases both the country risk and uncertainty in the international hydrocarbon markets. There is a duplication of medium-term risks, because maintaining oil prices for a longer period transforms the current crisis in Russia from a cyclical into a structural one.⁹

Wider Implications and Risks

The recent deceleration of the Russian economy will have a negative impact on the amount of remittances in the medium term. Thus, if the number of Moldovan migrants who return home this year is insignificant, the remittances will decrease by about 22.6% in 2015, and in the next two years will increase by an average of 12% (Figure 3, Scenario I). If the number of migrants who return is approximately equal to the one registered in 2009, the remittances will decrease by about 25% in 2015, increasing in the following two years by around 10% (Figure 3, Scenario II). However, in both scenarios, by the end of 2017 the volume of remittances (unless a significant geographical redistribution of migration flows occurs) will not reach the maximum level of remittances recorded in 2013, being about 10 percentage points lower in the first case and 12 percentage points lower in the second one.¹⁰

FIGURE 5. Dynamics of Remittances Depending on the Scenarios of Emigrants' Return



Source: Expert-Grup calculations based on NBM data

⁹ World Bank. The Dawn of a New Economic Era? Russia Economic Report Nr. 33, April 2015.

¹⁰ Modeling the dynamics of remittances made on the basis of Ratha D., W. Shaw. South-South Migration and Remittance. Working Paper 102, World Bank, 2007. The forecasts for the main macroeconomic indicators of the Russian Federation for the next years were taken from the IMF.

In addition to the impact at the macroeconomic level, the decrease of the amount of remittances will adversely affect people's wellbeing. Because the share of remittances is on average 18% of the disposable income of the population, the decrease of remittances by up to 25% decreases people's consumption by about 4.75% of GDP at the macroeconomic level.¹¹ At the same time, the severity of this external shock is increasing, if we consider its impact on different social strata, mainly on those with low income. People from rural areas (about 70%) are predominant in the structure of migration flows, and have a much lower income level if compared with those from urban areas. As the share of remittances in disposable income is approximately 23.5% in rural areas, compared to 12.2% in urban areas, rural dwellers will be primarily affected by the contraction of remittances.

Policy Recommendations

To mitigate the political and economic risks related to the significant exposure to the Russian economy, Moldovan authorities should implement a set of measures in order to decrease the importance of this destination for labour force migration:

- In the medium term, the migration flows must be diversified geographically. An efficient tool could be the negotiation of labour force migration agreements, as well as social protection agreements with a larger number of countries. Thus, funding the negotiation of such agreements from the state budget must become a priority. The need to amend the existing framework in this area is a consequence of the fact that during several years, these negotiations were not funded by the state budget, but rather by international organizations in the form of international financial support.¹²
- The efforts made to diversify the migration flows geographically must go hand in hand with the increase of the number of bilateral agreements on social protection for Moldovan migrants. Priority must be granted to the countries with a significant number of migrants, such as Italy, Greece, Spain and the Russian Federation. As some of these countries are not ready now to sign or negotiate such agreements, our state must invest in lobbying efforts with the support of some specialized international companies that are able to influence the decision-making process in the respective countries.
- The state should contribute to attraction of the Moldovan migrants' savings into the national economy. The importance of these savings is proved by their cumulative amount, which in 2012 was about 1.82 times higher than the amount of remittances. At the same time, the distrust in the national banking system contributed to the fact that in the same year about 44% of the savings were kept in the Republic of Moldova, 54% of which were kept at home.¹³ This requires a reform of the banking regulatory framework, which can be achieved by eradicating corruption in the legal system and in the relevant public institutions, as well as protection of property rights of shareholders in banks and other financial institutions.

¹¹ D. Saha, R. Giucci. Remittances from Russia: Macroeconomic implications of possible negative shocks. PP/03/2014, GET Moldova.

¹² Ministry of Labour, Social Protection and Family of the Republic of Moldova. Assessment Report: Strategic Development Plan, 2012 - 2014.

¹³ N. de Zwager, R. Sintov. Driving Innovation in Circular Migration. Migration and Development in Moldova. IASCI, Nexus, 2014

TABLE 2. Main Indicators Monitored regarding the Labour Market and Social Protection

Statistical Indicators	2012	2013	2014
Employment rate total (%)	38.4	39.3	39.6
Female	36.5	37.0	37.4
Male	40.6	41.8	42.1
Unemployment rate total (%)	5.6	5.1	3.9
Female	4.3	4.1	3.1
Male	6.8	6.0	4.6
Nominal wage growth (%)	8.89	8.26	10.81
External migration growth (%)	3.6	1.28	2.83
Share of the population living below the national absolute poverty threshold (absolute poverty rate %)	16.6	12.7	n/a
Remittances growth rates (%)	12.18	10.51	-5.04
Gini coefficient	0.3350	0.3326	n/a
Nominal average wage of Republic of Moldova/Central and Eastern Europe (CEE) in USD (%)*	38.5	37.4	n/a

* Only CEE countries that are EU members have been taken into account

Source: NBM, NBS, and Eurostat



Human Capital: From Reforms to Current Challenges

THE CURRENT CONTEXT, NAMELY THE DCFTA WITH EU, PROVIDES CERTAIN OPPORTUNITIES TO MOLDOVA, THE HARNESSING OF WHICH DEPENDS ON THE COUNTRY'S HUMAN CAPITAL. EVEN IF THE EDUCATION SECTOR IS LEADING IN TERMS OF THE RECENTLY LAUNCHED AND IMPLEMENTED REFORMS, THE VOCATIONAL EDUCATION SYSTEM IS NOT YET PREPARED AND FLEXIBLE ENOUGH FOR NEW REQUIREMENTS AND OPPORTUNITIES. ON THE OTHER HAND, THE PRIVATE SECTOR IS NOT ABLE TO KEEP THE MOST VALUABLE EMPLOYEES, WHO ARE LOOKING FOR OPPORTUNITIES BEYOND THE BORDERS OF THE COUNTRY IN THE HOPE OF FINDING BETTER-PAID JOBS. THUS, THE MAIN MEDIUM-TERM CHALLENGE IS TO INCREASE THE COMPETITIVENESS OF HUMAN CAPITAL BY INTERVENING IN TWO DIRECTIONS: INCREASE THE QUALITY OF EDUCATION AND MAKE COMPANIES MORE PROFITABLE SO THAT THEY WOULD BE ABLE TO PAY COMPETITIVE SALARIES AND CONTRIBUTE TO THE LIFELONG TRAINING OF THEIR EMPLOYEES.

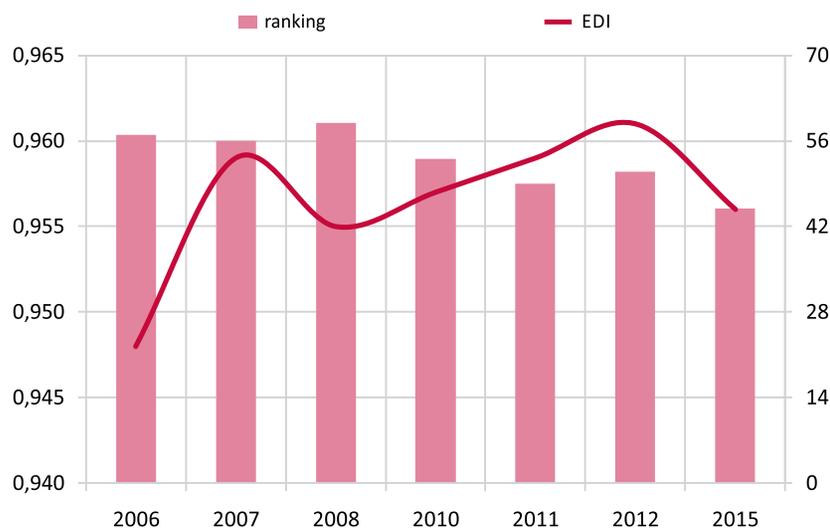
Contradictory Developments and Needed Reforms

Although the quantitative indicators of the educational system always have placed Moldova in a pretty favorable position, the quality of education and as a result the developed human capital no longer meet the needs of the Moldovan economy. But the real reforms aimed at the transition from quantity to quality indicators in the educational system started only in 2012, in a less favorable political context. Thus, according to UNESCO's "Education for All" Development Index,¹⁴ the Republic of Moldova has since 2007 ranked among the countries with the highest index values, which decreased in 2015 (Figure 6).

Although there are not any data on the direct impact of the recent reforms, we may assume that the situation might worsen against the background of school network optimization, which has not been accompanied by sufficient measures to ensure transportation to the new educational institutions. The reform aims at ensuring the quality of studies and at reducing the high expenditures in the educational system, but it also has some negative aspects. During the process of school network optimization in 2012–2014, 92 educational institutions were closed down and 127 were reorganized. During the same period, the net enrollment ratio in the primary and secondary education decreased slightly, especially in the rural areas, where the most optimization operations were performed.

¹⁴ The "Education for All" Development Index has a maximum value of 1 and represents the arithmetic mean of four indicators: net enrollment ratio in primary education, literacy rate of the population aged over 15 years, gender parity index and graduation rate from secondary education.

FIGURE 6. “Education for All” Development Index, Value (Main Axis) and Place in the Classification (Secondary Axis), 2006–2015



Source: UNESCO; the index is presented only for the years calculated by UNESCO

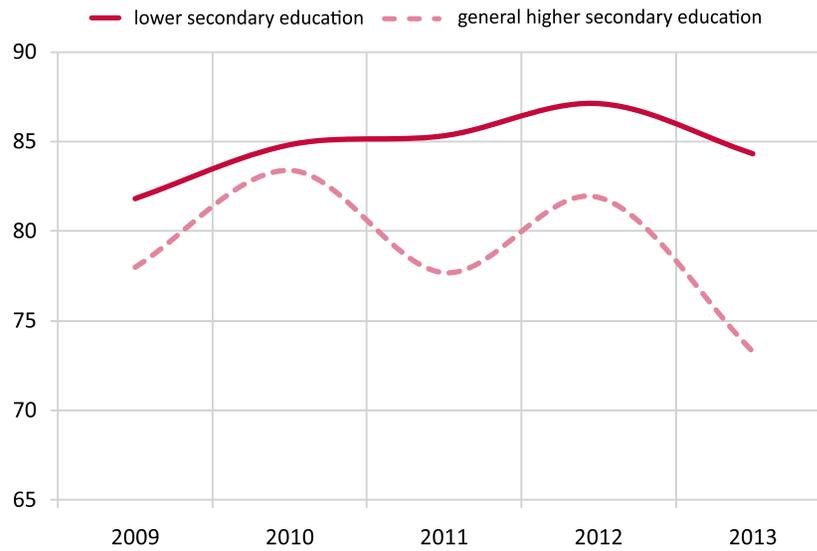
Moreover, the share of those who remain without specialization is quite high. The number of high school graduates who continue their education decreased particularly (only 73.3% in 2013), due to factors including the higher requirements for the Baccalaureate exams (Figure 7). Thus, the school dropout rate¹⁵ was 21.1% in 2013, and much higher for males (25.9% vs. 15.6% for females) (Table 3). Even if the new Education Code, approved in 2014, stipulates that mandatory education is up to 18 years, this would not solve the problem of young people who do not obtain a specialization when graduating from high schools, do not continue education and remain vulnerable on the labour market.

The increasing number of young people without specialization goes hand-in-hand with the process of wasting the already developed human capital, which is employed in positions that do not fit with the obtained education level. The share of employed persons who consider having higher qualifications than those needed at the workplace has increased and reached 22.9% in 2013 (26.3% for male and 19.3% for female population). A more objective view is offered by the skills mismatch indicator, used by the International Labour Organization.¹⁶ According to this indicator, the share of persons over-educated for the work they perform is highest for the graduates of vocational institutions - 24% in 2014 (with higher shares for male population) (Figure 8).

¹⁵ The school dropout rate: the share of people aged between 18 and 24 years with elementary education level (low), and who had not attended any training for the four weeks before the interview, in the total number of people of 18–24 years old.

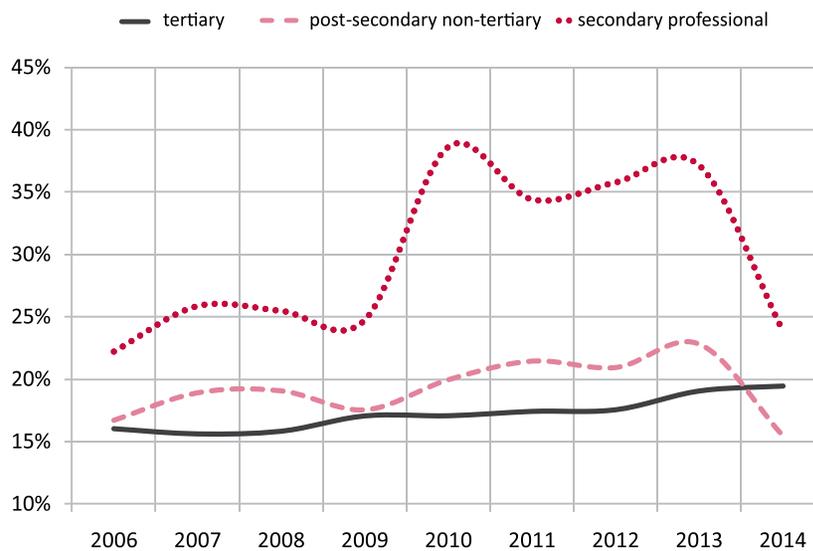
¹⁶ “Skills mismatch in Europe”, ILO, 2014; According to ILO classification over-educated persons are considered graduates of higher and post-graduate education with occupations of the 4–9 groups of the International Standard Classification of Occupations (ISCO) and graduates of secondary education (general and vocational) with occupations of the 9 group of ISCO.

FIGURE 7. Share of High and Secondary School Graduates Who Continue their Education (%), 2009–2013



Source: NBS

FIGURE 8. Persons Over-educated for the Work They Perform, 17 %, 2006–2014



Source: Authors' calculations based on NBS

¹⁷ Considering that most EU countries do not have mid-level vocational education, and this is higher than vocational education (by its length), for the Moldovan graduates of post-secondary non-tertiary education, having occupations of the 8–9 groups of ISCO was considered as being included in occupations inferior to the level of education at which they graduated.

In addition to the described vertical asymmetry, there is horizontal asymmetry, when the education type or field and skills are not suitable for the job position.¹⁸ To calculate such type of asymmetry there are not enough data, but the current situation is well-known: most of the graduates opt for humanitarian and business fields, while the reported shortage is referred mostly to the specialists of technical fields.¹⁹

The fact that people are over-educated does not mean that they are over-qualified. The phenomenon of opting for higher education has determined that low-paid jobs requesting a low level of skills are fulfilled by graduates of higher education who are more flexible, are able to meet a large range of functions, learn easily and are more responsible.²⁰ Conversely, it is more difficult for graduates of vocational education to find a job, and in most cases it is in lower occupations.

Thus, even if a shortage of qualified workers is often reported (graduates from vocational-professional education), the low employment opportunities make young people reluctant to opt for this level of education. In fact, we conclude that the quality of vocational education has degraded the most, and the more serious problems are at this level of education. Some important measures were taken in 2014 to improve the situation: (i) the Education Code introduced the concept of dual education in the technical vocational education, (ii) the concept of a social dialogue platform in technical vocational education was introduced, (iii) the Methodology on the Development of National Qualification Framework for Vocational Education was approved, (iv) some occupational standards were approved, and (v) the Concept of the National Validation System for Non-formal and Informal Education is at the stage of development, as well as the Methodology on Validation of Non-formal and Informal Education. These measures are badly needed, but the speed of the process is too slow, so it cannot eliminate the problems existing for many years, and even less can it provide flexibility in the current economic framework.

TABLE 3. Main Indicators Monitored regarding Human Capital Development

	2012	2013	2014
Share of employed population with higher qualifications than those requested at the workplace, %	22.3	22.9	--
Share of public expenditures for education in GDP, %	8.4	7.0	7.0
Number of graduates of higher education	26730	24848	24274
Number of graduates of vocational education	10424	10380	9664
Number of graduates of post-secondary, non-tertiary education	7426	7443	6484
School dropout rate, %	21.2	21.1	--

Source: NBS and authors' calculations

¹⁸ Skills Mismatch in Europe, ILO, 2014.

¹⁹ Republic of Moldova: National Human Development Report 2014, UNDP, 2014.

²⁰ Sintov R, Cojocaru N "Evaluation of Links between Education, Professional Development and Migration of Labor Force in the Republic of Moldova", ILO, 2013.

Current Opportunities, Risks and Challenges

The DCFTA with the EU provides certain opportunities to Moldova, the capitalization of which depends directly on the country's human capital. Labour market needs may change, as in some economic sectors the demand is expected to increase, while in others to decrease. In this context, the education system – the vocational one in particular – must be flexible enough to produce qualified specialists and quickly respond to the new market needs. This is currently not possible, because even if reforms are launched, they are implemented more slowly at the level of vocational education.

Moreover, retaining talented and qualified human capital is still a challenge. After gaining its independence, Moldova was known as a country with relatively qualified and cheap human capital, but these qualifications are no longer valid. The geographic and political context that provides the possibility to emigrate makes it impossible to maintain skilled employees with salaries far below the average salaries in the EU and Russia. Thus, according to the World Economic Forum index of "Capacity to retain talented people in the country", the Republic of Moldova has a rate of only 1.88 out of 7.²¹ If in the past decade Moldova benefited from several significant foreign investments that created new jobs, in the past years, fewer new investors have been interested in investing in Moldova, while many of those who are already present in the market cannot extend their business due to the shortage of human capital²². Therefore, it is not possible to maintain the best specialists and to increase the productivity of employees without offering competitive salaries. To do this we need more profitable companies and therefore need to ensure a favorable business climate, so that they could provide competitive salaries, and invest in training of the labour force.

In this context, there are particular risks and challenges that need an urgent and strategic approach:

- **Quality of Teaching Staff at all Education Levels.** The quality of teaching staff, in particular, is one of the most important factors for increasing the performance of the educational system. The Education Code, approved in 2014, includes provisions on the evaluation of teaching staff, but quality assurance is much more complex. Unless the salaries are increased significantly, this profession cannot become prestigious enough to attract young specialists. Moreover, even if there are many discussions about the old age of teachers working in mainstream education, there is also the problem of the quality of young professionals. During recent years, pedagogical faculties used to announce a second round of enrollment because of the failure to enroll enough students in the first round, and in most cases the second round would attract high school graduates with lower marks, who failed at other faculties.²³ In vocational education, even the teachers need training in order to teach the professions that have developed.
- **Stimulation of Private Sector to Participate in the Development of Human Capital.** Although the private sector is the main beneficiary of human capital, its involvement in the development of human capital has been limited. The aim of reforms in the educational system is to increase the cooperation at the levels of both curriculum development level and training. However, the mechanisms of stimulating the private sector to participate in this partnership are not yet clear enough to avoid mutual blaming for the lack of effective cooperation.

²¹ The Human Capital Report 2015, World Economic Forum. The index "Ability to maintain talented people in the country" may be rated from 1 to 7 (1 = the best and most intelligent people go abroad to exploit opportunities, 7 = the best and most intelligent people remain in their country and exploit opportunities).

²² Stated in various interviews by IT companies with foreign capital.

²³ Paiu M. "Analiza politicilor educaționale din învățământul general" ("Analysis of Educational Policies in the General Education"), IPP, 2014;

- **Funding of the Education System Sector.** The high share of public expenditures for education in GDP will be maintained in 2015 too, with an expected level of 7.2%. Even if some recent legislative amendments tend to optimize the expenditures in this sector (optimization of school network, funding per pupil, autonomy and self-management of educational institutions), the expenditures cannot be decreased immediately, and the necessary reforms also require investments.
- **The Number of People without Specialization Is Increasing.** Although the labour market imbalance is often presented as an imbalance between the graduates of higher and vocational educational institutions, the problem of young people not having any specialization and skills is becoming much more significant, considering their large number and low employment chances.
- **Intensification of the Intention to Emigrate.** This state of affairs has already become normal for Moldova, and the results of the last parliamentary elections and the following developments generated disappointment among highly skilled persons, which increased their desire to emigrate. Although there are no data confirming the comprehensiveness of this phenomenon, different interviews show that a part of the educated population, including graduates who returned to Moldova, wants to leave for abroad.
- **Return of Migrants.** Unlike those who want to leave for abroad, the migrants who return, mainly from Russia, are mostly not skilled, or have skills that are not acknowledged or demanded by the labour market of the Republic of Moldova. Their reintegration should involve their training, but the current system is not prepared for that.
- **Skilled and Talented Civil Servants Resign from Public Institutions.** This phenomenon is already obvious and confirmed by the discussions held with representatives of public institutions. The resignation of talented and experienced civil servants from the key ministries due to different reasons will be an obstacle in the implementation of the reforms the Government has launched or committed to.

Policy Recommendations

In this context, the most important recommendations for the next period, in addition to those mentioned in the previous editions of this report, are:

- Ensure access to mainstream education and encourage students to find a profession. The efforts should be focused particularly in those areas where educational institutions have been closed, through much stronger control and provision of transportation to schools from the neighboring areas. In addition, all secondary school students should be provided professional counseling to help them make the optimal choice and understand the benefits of graduating from a vocational institution, if compared with graduating from a high school that does not provide a profession if high school graduates do not have the possibility to continue their studies.
- Make efforts to improve the quality of the existing teaching staff, and attract talented young people to work as teachers. Of course, funds are needed in order to increase the teachers' salaries in the long-run. In the short and medium-term it is necessary to implement new performance appraisal systems and to strengthen the system of teachers' ongoing training.
- Besides increasing the autonomy and transition to self-management, it is important to ensure the quality of education by ensuring the good functioning and independence of National Agency for Quality Assurance in Vocational Education. Facilitation of the establishment of local extensions

of European universities and vocational schools, and cooperation under various programs of national and international institutions, would also increase the competition and quality of vocational education.

- Implement dual education and identify all the leverage that could be used to attract the private sector into a consortium with educational institutions. Take into account employers' opinions when developing the curriculum, performing the training and monitoring the educational institutions.
- Set up new sectoral committees, strengthen the existing ones and involve them in developing the occupational standards. The occupational standards have been developed very slowly so far, but a modern economy is constantly changing and in most cases it requires rapid intervention. Thus, it is necessary to develop the occupational standards faster, ensure ongoing monitoring of the new market needs, and reflect them in the curricula and educational standards.
- Encourage enterprises to provide in-service training. Lifelong learning is as important as the studies gained in the educational system for ensuring a skilled labour force that is able to adjust easily to the new economic needs and to contribute to the enhancement of the competitiveness of companies and the national economy. For this purpose, companies have to be profitable, which requires reforms for a friendlier business climate.
- Develop and implement a legal framework on the recognition of qualifications obtained unofficially and informally in Moldovan or foreign companies. This aspect is crucial in the context of returning migrants, but also in order to attract the migrants who have the skills demanded by the local labour market.



Environment and Energy Efficiency

THE MOLDOVAN ECONOMY IS EXTREMELY VULNERABLE TO EXTREME WEATHER CONDITIONS. EXTENSIVE FARMING AGAINST THE BACKDROP OF AN UNDERDEVELOPED IRRIGATION SYSTEM, AS WELL AS THE SHORTAGE OF WATER AND FOREST RESOURCES, POINTS TO THE FACT THAT THE COUNTRY IS POORLY PREPARED FOR CLIMATE CHANGE. IN A LONG-TERM PERSPECTIVE, THE INTENSIFICATION OF CLIMATE CHANGE COULD SERIOUSLY AFFECT THE COUNTRY'S DEVELOPMENT PROSPECTS. AT THE SAME TIME, SHORT-TERM RISKS ASSOCIATED WITH ENERGY SECURITY STILL PERSIST. THE DETERIORATION OF THE POLITICAL SITUATION IN THE REGION IS ALREADY A REAL THREAT TO THE COUNTRY'S STABLE SUPPLY OF ENERGY. IN THIS CONTEXT, THE ASPECTS ADDRESSED IN THIS CHAPTER WILL FOCUS ON TWO DIMENSIONS: CLIMATE CHANGE-ASSOCIATED RISKS AND THE THREATS TO THE COUNTRY'S ENERGY SECURITY.

Climate Change

Climate change may pose risks as it can lead to resource pauperization, lower access to foodstuffs and water, and a negative impact on people's health. In its initial phase, climate change influences socio-economic security: the risk of poverty and illness increases. In the second phase, the severe deterioration of socio-economic conditions may cause social unrest and even military conflicts. Climate change affects the entire world, but the poorest countries are, it seems, the most vulnerable, as many of them will be affected disproportionately, with their adaptation capacity being very limited.²⁴ This statement is also true for the Republic of Moldova.

Protection from Climate Change. Climate change-associated effects have already been confirmed in the Republic of Moldova. The recorded data already point to higher temperatures and an increase in precipitation. Between 1886 and 2007, the average annual temperatures increased by approximately 1°C, while the volume of precipitation increased by 11%.²⁵ Between 1890 and 2007, 22 severe droughts were registered, while 18 years were affected by conditions close to droughts.²⁶ More than that, the frequency of drought years in recent decades increased: there were 10 droughts of different intensity between 1990 and

²⁴ UNDP, National Human Development Report 2009-2010. Climate Change in Moldova: Socio-Economic Impact and Policy Options for Adaptation, 2009, p. 1.

²⁵ Ministry of Environment of the Republic of Moldova, National Climate Change Adaptation Strategy of the Republic of Moldova. Draft for consultations, 2011, p. 7.

²⁶ Ibidem, p.7.

2014. Another unfavorable effect because of climate change is the increase in the frequency of floods. 10 major floods were reported around the big rivers of Moldova (Nistru and Prut) in the past 70 years, three of them in the beginning of the 21st century (2006, 2008 and 2010).²⁷

Climate change will intensify in the long run, and the new climate conditions in the Republic of Moldova may be characterized by higher temperatures and less precipitation. First, winters will become warmer and more humid, and summers and autumns hotter and dryer.²⁸ By the end of the 21st century the annual air temperature might increase in Moldova by 4.1–5.4°C on the average.²⁹ However, moderate increases of precipitations during winters and springs are expected, while the ones during summer and autumns are expected to decrease,³⁰ which will cause a negative trend for this climate phenomenon. Another evolution that will characterize the dynamics of the climate conditions is the one related to the frequency of extreme meteorological phenomena. At the same time, it is forecast that the risk of floods and droughts will increase. Another trend that might have negative effects is the climate growing more arid – a process that leads to higher incidence of droughts. The forecast is that the aridization will intensify considerably until 2040.³¹ In general, the climate's trend of change will have detrimental effects on the country's development and it implicitly represents a risk hovering over the security of the Republic of Moldova.

Climate change will have different effects on different sectors. It is considered, however, that the sectors of agriculture, water and forest resources, health, transport and energy reflect best the influence of climate changes.

Impact on Agriculture, Water and Forest Resources. During the country's transition period the share of agriculture in GDP decreased significantly from 29.3% in 1995 to only 12.8% in 2014. The reduction of its share caused reduced employment in the sector concerned: in 2014 the proportion of the population employed in agriculture decreased by 49.1% as compared to 1996. Nonetheless, agriculture has a high social importance, because one-third of the population works in this sector (30.5% in 2014). Agriculture is the sector most vulnerable to climate change. Factors such as the degradation of the irrigation infrastructure and advanced soil erosion increased to an even greater extent agriculture's sensitiveness to climate conditions. The agricultural sector has already been strongly affected by droughts in 2003, 2007 and 2012 (the volume of agricultural products decreased by 13.6% in 2003, by 23.1% in 2007 and by 22.3% in 2012).

Long-term climate change together with the increasing frequency of extreme climate phenomena will have an adverse impact on the agricultural sector. The strong climate warming will generate a high risk of drought and will cause the spread of agricultural pests and diseases. In turn, higher temperatures together with the changes in the precipitation regime will worsen the water deficit and will deteriorate the water quality. The extreme phenomena, such as floods and storms, will accelerate soil degradation. As a result, the following socio-economic effects will be witnessed: fewer crops, degradation of grain cultures and more expensive agri-food products. As a consequence, the income from agricultural activity might decrease, and the country's food security will be endangered.

²⁷ Ibidem, p. 8.

²⁸ Ibidem, p. 9.

²⁹ UNDP, National Human Development Report 2009-2010. Climate Change in Moldova: Socio-Economic Impact and Policy Options for Adaptation, 2009, p. 46.

³⁰ Ibidem, p. 46.

³¹ Ibidem, p. 9.

Impact on Water and Forest Resources. Moldova has scarce water resources. The water resources originating in the territory of the country in relation to the population represent 282.1 m³ per capita, which is the lowest level in the region.³² The main source of water supply in the Republic of Moldova is surface water, which covers 85% of the supply, while groundwater accounts for only 15%. At the same time, groundwater is the main source of water supply in the Republic of Moldova (65% of the population).³³ Currently, all the towns and municipalities and over 65% of the villages have centralized systems for drinking water supply, but only 50% of them are in technically satisfactory conditions.³⁴ At the same time, the water in small rivers is extremely polluted, and the groundwater resources do not meet the national drinking water standards.³⁵

The climate risks for water resources are caused by the increasing temperatures, changes in the precipitation regime and intensification of extreme phenomena. These factors will lead to two major consequences: fewer water resources and poorer-quality water. As a result, the access to water resources could decrease considerably, people's health condition would be affected and the desertification risk would increase. Against the background of robust economic growth and a more arid climate, the access to water resources might become a constraint to the development of the country in a 15-year perspective.³⁶

Currently the forest cover percentage of the country is 11.1%, which is under the minimum required to ensure the ecological balance of 15%. Moreover, the afforestation rates are quite slow: during half of a century, the forest cover percentage increased by only 5.6 percentage points.³⁷ The main detrimental effect of climate change would be the reduction of the forest resources' capacity to maintain biological diversity, protect the environment and perform the specific socio-economic functions.

Impact on Energy and Transport. As there is limited energy generation capacity in the country, the Republic of Moldova has to import energy in order to cover its energy needs (in 2013, the energy imports in relation to the gross internal consumption of energy accounted for about 83%). This makes Moldova vulnerable to the interruptions in supply and price increases for the energy supplied from abroad.³⁸ In the event of climate change, the energy sector will definitely be affected. Climate warming might generate effects, such as the reduction of energy consumption to warm spaces up, but it might be necessary to use energy to cool them down. This change would affect both the volumes used and the energy consumption structure (electricity would be used more than gas).

Since Moldova is a small country, roads are a key form of transport infrastructure. In 2014, approximately 96% of the passengers and 63.7% of commodities were transported by road, and the main problem with the roads is their quality. Currently about 26% of national roads are in good to fair condition, 54% in poor condition and about 20% in bad condition.³⁹ The main risks for the transport sector are related to the increase in temperatures and incidence of intense precipitation. Higher temperatures could lead to higher

³² Lupusor, A., Fala, A., Cenusă, D., Morcotoiu, I., Republic of Moldova 2014. State of the Country Report, Expert-Grup Independent Think Tank, Friedrich Ebert Stiftung, Chisinau 2014, p. 36.

³³ Ministry of Environment of the Republic of Moldova, National Climate Change Adaptation Strategy of the Republic of Moldova. Draft for consultations, 2011, p. 16.

³⁴ Ibidem, p. 16.

³⁵ Ibidem, p. 16.

³⁶ Ibidem, p. 16.

³⁷ UNDP, "The Third Millennium Development Goals Report. Republic of Moldova", Chisinau, 2013.

³⁸ Ministry of Environment of the Republic of Moldova, National Climate Change Adaptation Strategy of the Republic of Moldova. Draft for consultations, 2011, p. 26.

³⁹ The Transport and Logistics Strategy for 2013-2022, 2013.

maintenance expenses for certain kinds of infrastructure, as the infrastructure deteriorates more quickly if the temperature goes beyond 32°C,⁴⁰ while long-lasting hot summers may worsen or even destroy the asphalt pavement of national roads.⁴¹ More frequent intense precipitation will negatively affect the means of transport.

Impact on Health. In most transition countries health conditions have improved in a significant proportion if compared to those in the Republic of Moldova.⁴² The main risk factors that caused this situation are: excessive alcohol consumption, smoking, sedentary way of life, and excessive consumption of fats, salt and sugar.⁴³

One of the harmful effects of climate change on the health condition is associated with the increase in the number of days with extreme temperatures and longer dry periods. This development would increase mortality (particularly on days with extreme temperatures) and communicable diseases, including those transmitted by food. Another influence would refer to the increased frequency and intensity of floods, which would cause increased deaths, injuries and water-related diseases.

Energy Security

The problem of energy security can be addressed from two perspectives: the risks related to the instability of energy supply and price growth that makes people's access to energy more difficult.

Energy Supply. The Republic of Moldova does not have its own gas resources and, hence, is fully dependent on gas imports from the Russian Federation. The Iasi–Ungheni pipeline, which allows the import of gas from Romania, could ensure energy only for some settlements in the vicinity of Ungheni. However, this pipe section is not connected to the national gas distribution system and by now does not represent an alternative for the gas imported from Russia. To connect the Iasi–Ungheni pipeline to the national gas distribution system, an additional pipe of about 70 km should be built.

The gas is imported from the Russian Federation under a contract stipulating that the gas price is related to the oil price. In this context, the recent developments on the oil market, which were characterized by oil price reduction, are beneficial for the Republic of Moldova. Unfortunately, the relationship with the Russian Federation has not been always good. Russia often uses economic tools for its geopolitical goals. At the same time, Moscow tends to influence some countries that import energy, and the gas price and supply conditions are used as a pressure factor. In its relations with the Republic of Moldova, Russia does not hesitate to use such approaches.

There is a problem related to the gas supply from the Russian Federation, as it transits through Ukraine. The deterioration of the relations between Russia and Ukraine could lead to a new “gas conflict”, similar to the one of 2009. Ukraine might refuse the transit of Russian energy through its territory. In this case the Republic of Moldova could be left without gas.

⁴⁰ Ministry of Environment of the Republic of Moldova, National Climate Change Adaptation Strategy of the Republic of Moldova. Draft for consultations, 2011, p. 30.

⁴¹ Ibidem, p. 30

⁴² UNDP, National Human Development Report 2009-2010. Climate Change in Moldova: Socio-Economic Impact and Policy Options for Adaptation, 2009, p. 29.

⁴³ UNDP Good Corporate Citizens. Public and Private Goals Aligned for Human Development. National Human Development Report in Moldova 2014, 2014, p. 83.

On the right bank of the Nistru River, energy consumption is covered in the proportion of 30% from internal sources (CPHs), and the other 70% imported or purchased from the Transnistrian region, where the Cuciurgan Thermal Power Plant is located. Electricity is imported from Ukraine, but because of the worsening economic situation in Ukraine, the electricity supply has decreased considerably. In the context of a fruitless dialogue between Chisinau and Tiraspol and of a tense situation in the region, the blockage of the electricity supply from the Transnistrian region to the right bank of the Nistru River is a possibility.

Energy Price. Considering the experience of some European countries, in Moldova „energy poverty” is observed⁴⁴: energy spending accounts for more than 10% of the household expenditures. Although the prices on the energy market are regulated, the cost of energy has increased significantly and energy poverty has grown. During 2006–2014 the prices of several types of energy increased much more rapidly than disposable income. Thus, centralized heating became 3.4 times more expensive, the prices for network gas increased 2.9 times, and the cost of electricity increased about 2.2 times; at the same time the disposable income increased only 2.1 times. The cost of fuels only increased 1.8 times – a smaller increase if compared with the income increase. The quicker increase in the energy costs compared to the population’s revenues leads to reduction in the population’s consumption. The decisions to use less energy are taken especially by low-income households. The higher prices for energy may lead to the augmentation of debts for supply, which generates financial distress for the operators on the market.

Electricity and gas are imported, the internal tariffs depend on the evolution of import prices and of the MDL exchange rate. For instance, the import price for gas, calculated in USD/1000 m³, increased five times in 2014 if compared with 2005. Nonetheless, the import price for gas expressed in USD decreased in 2013 and 2014, and thus, in 2014 the price dropped by 4.3%, if compared with 2012. On the other hand, the import price expressed in MDL increased by 13.2% in 2014 as compared to 2012, which was caused by the MDL depreciation by 13.7%. The strong MDL depreciation in the beginning of 2015 (during Jan–Apr 15, MDL grew 25.6% cheaper year on year in relation to USD) will be the main cause of the significant increase in the tariffs for energy in 2015.

Another factor that determines the quite high prices for certain energy products has to do with the fact that there are uncompetitive practices on energy market segments. The most telling instance of behavior with a hue of anti-competitiveness is related to the oil market products. Thus, the behavior of business entities reveals a high likelihood of uncompetitive commitments, and prices are found to be inconsistent in terms of their level and adjustments to external variations, while most oil companies have a non-transparent price policy.⁴⁵

Policy Recommendations

Climate Change

- It must be frankly acknowledged that currently the Republic of Moldova does not have the necessary resources to fund climate change adaptation measures. Taking this into account, the Republic of Moldova must make “small steps”, according to its capacity. The state might carry out certain measures that require a considerable financial effort. At the same time, funds from foreign donors are absolutely necessary in order to carry out some serious programs, particularly to build some infrastructure objects.

⁴⁴ Currently there is no unanimously accepted definition of energy poverty. Some countries, such as France and Great Britain, define energy poverty as the situation when more than 10% of household income is spent on energy (Bouzarovski, S, Social justice and climate change: Addressing energy poverty at the European scale, p. 11)

⁴⁵ Lupusor, A., Moldovan Fuels’ Market: Assessment of the Regulatory Framework, Competition and Price Formation. Expert-Grup Independent Think-Tank, Chisinau, 2011, p. 32.

- The national authorities should focus their efforts on three dimensions:
 - ✓ creation of a mechanism to collect and systemically analyze the data on climate change;
 - ✓ awareness rising among the wider public regarding the climate change risks and the attraction of/cooperation with the persons interested in implementing some projects or promoting some good practices;
 - ✓ considering the global character of the climate changes, the Republic of Moldova must be involved in international cooperation.
- The fiscal-budgetary mechanisms must also be rethought in order to ensure a better adaptation to the environmental changes. For instance, the environmentally harmful products could be taxed more harshly. The accumulated amounts may be directed subsequently to a national climate change adaptation fund. On the other hand, some types of expenses, such as agriculture subsidies for instance, must be done while keeping in mind the climate risks.
- Other measures that would strengthen the country's immunity to climate vulnerabilities relate to the promotion of energy efficiency, green transport, ecological farming and some water-saving consumption models.
- Separately, an important measure is the expansion of the forest land up to 15% of the total area of the country – a minimum level that ensures performance of the ecological functions of the forest.

Energy Security

- Moldova's energy security can only be ensured if it cooperates with Ukraine and particularly with Romania. Ukraine is somewhat self-sufficient in electricity, while gas can be imported from Russia and partially from the EU. Romania is generally able to ensure its energy independence in all segments.
- The connection to the Romanian energy system will kill two birds with one stone. This connection will ensure a stable supply of gas and electricity to Moldova. Second, via Romania the Republic of Moldova will connect to the EU energy market, which is certain and predictable. Therefore, the connection to the Romanian energy system will have to become a priority on the agenda of the Moldovan Government as far as energy policies are concerned. Nonetheless, time and resources are needed for the physical infrastructure to be built, that will link the energy networks of the two states. Provided that favorable circumstances are in place, that are particularly related to the political will in Chisinau, this objective can be achieved in the medium term.
- Although the national legislation allows the entry of new energy operators and the connection to the Romanian energy system would favor the emergence of new players, difficulties may appear when it comes down to the actual supply of energy from Romania. Moldova-Gaz, a company in which the Russian concern Gazprom owns the controlling interest of 50%+1 of the shares, could use its dominant position on the gas market of Moldova to prevent the supply of gas from Romania. As a matter of fact, Russia is trying to block the implementation of the third energy package of the EU through Moldova-Gaz, and later on this company could be used to hinder the actual connection of Moldova to the energy system of Romania and EU. For this reason, the Chisinau authorities must be ready for "more serious discussions" with Moldova-Gaz.
- The low prices for oil on the global market are an advantage for the Republic of Moldova. In this context, the Republic of Moldova must insist to the Russian Federation on the prolongation of the current contract, which stipulates that the cost of the imported gas is connected to the price for oil.

- In the short run, the Republic of Moldova must ask for Ukraine's assistance with the management of the gas issue. If a new "gas war" breaks out between Ukraine and the Russian Federation, the transit of Russian gas through Ukraine's territory might be suspended. In this case, Moldova would only be able to import gas through Ukraine, which can import energy from the EU. For this reason, the Republic of Moldova must negotiate and obtain assurances that Kiev will guarantee its gas supply in times of crisis.
- The electricity is currently purchased from the Cuciurgani plant. Considering the severe economic problems that the Nistrian region has to deal with, it is unlikely that Tiraspol authorities will suspend electricity supply to the right bank of the Nistru River. The sale of electricity is an important source of income for the region on the left bank of the Nistru River, which is going through an economic downturn. Nonetheless, the Republic of Moldova must simultaneously negotiate with Ukraine in order to ensure electricity supply stability. If the relations with Tiraspol become tenser and the energy supply to the right bank is suspended, the only possibility to ensure access to electricity is by importing it from Ukraine.
- In order for socially vulnerable groups not to be affected by the higher prices, the state must continue granting financial support to these groups, although it is obvious that the amounts allocated by the Government for this purpose are too small. However, currently there are no solutions that would ensure a quick result.
- One solution that would to a certain extent stop the unjustified increases of prices would be the combating of some possible anti-competition schemes (that could exist on the oil market). Fair tariffs must also be established, which would exclude unjustified costs that certain energy market operators could try to include in the price in order to gain bigger profits.

TABLE 4. Main Indicators Monitored regarding Environment and Energy Sector

Statistical indicators	2011	2012	2013	2014
Land under forests and intended for nature protection, % of the total area	13.3	13.3	13.3	13.3
Agricultural land, % of the total area	73.8	73.8	73.8	73.9
Arable land, % of the total area	53.6	53.5	53.6	53.7
Arable land per person, ha/capita	0.51	0.51	0.51	0.51
Domestic water resources per person, m ³ /capita	-	281.2	281.2	-
Water consumption, million m ³	785	786	782	-
Population with access to improved sewerage, % of total population	54.6	56.6	58.2	-
Energy productivity, GDP in MDL 2010/kg conventional fuels	24	24.9	26.8	-
Energy consumption, % of household expenditures	13	14	14.1	-



Domestic and Foreign Politics: Decline of the Pro-European Bloc and Latent Impact on the National Security

THE PERIOD OF 2014-2015 WAS DOMINATED BY ESSENTIAL CHANGES IN THE POLITICAL ARENA. THE SHARE OF PRO-EUROPEAN FORCES DECREASED, AND THE PRO-RUSSIA AND ANTI-EU PARTIES BECAME STRONGER. THE REFORM AGENDA IS STILL INFLUENCED BY A POLITICAL WILL THAT IS NOT INTERESTED IN CHANGING THE STATUS QUO THAT PROVIDES THEM CONTROL OVER THE JUDICIARY, ACCESS TO PUBLIC FUNDS AND ECONOMIC OPPORTUNITIES. ALONG WITH THE SIGNIFICANT DECLINE OF THE EUROPEAN-LEANING GROUP, PRO-RUSSIA AND PRO-EURASIAN RHETORIC HAS BEEN ACTIVATED IN THE PUBLIC AND POLITICAL ARENAS. ALL THESE FACTORS HAVE GENERATED THE NECESSARY PRECONDITIONS FOR UNDERMINING THE SECURITY OF THE COUNTRY, WHICH IS ALREADY AFFECTED BY THE EVENTS IN UKRAINE.

Analysis of the Main Trends and Developments

During the period under review, domestic politics balanced between maintaining wide pro-European coalitions and a severe lack of cohesion among pro-European countries.⁴⁶ The political balance was overturned by the elections of November 2014, which revealed the decline of pro-European parties (55 seats in the Parliament in 2014 if compared to 59 in 2010), stagnation of the communist party (CPRM) and the emergence of a pro-Russia party (SPRM). The creation of a bipolar (LDPM, DPM) pro-European minority government supported by CPRM has significantly damaged the dialogue with LP, causing and at the same time cracks within LDPM. Thus, the reduced electoral base of the dominant parties (during 2009–2014) created favorable conditions for new political forces (SPRM, Partidul Nostru, EPPM) to emerge.

The election context and blockage caused by the indecisive election of the head of government has postponed, or reduced, the pace of the reforms initiated during 2013–2014. In addition, the atmosphere of political instability and unpredictability, caused by the existence of a minority government, has influenced the political commitment toward reforms. Moreover, the absolute lack of political will among the pro-European governance parties and the tripartite opposition⁴⁷ created additional pressure for reforms (reform in the justice sector, fighting corruption). Possible early elections, following the dismissal of the current government or the impossibility to elect the president in 2016, increase uncertainties about the sustainability and irreversibility

⁴⁶ Pro-European parties – Liberal Democratic Party (LDPM), Democratic Party (DPM), Liberal Party (LP).

⁴⁷ The parliamentary opposition is represented by three distinct groups: (i) the diluted outward-looking orientation (CPRM); (ii) the well-defined outward-looking orientation expressed in the favor of the EU and NATO (LP); and (iii) the pro-Russian orientation in favor of the Customs Union (SPRM).

of reforms. Foreign policy has been dominated by close links with development partners (EU, US, World Bank, etc.), which actively supported the reform agenda. Despite the increased mistrust of the EU toward the alleged pro-European forces, but also the collapse of pro-EU sympathy, the bilateral relations have intensified thanks to the Association Agreement. On the other hand, the dialogue with Russia remained in a frozen state, which contrasted strongly with the support expressed by the public for the Eurasian Customs Union and Eurasian orientation.

FIGURE 9. Representation of Citizens' Political Options, %

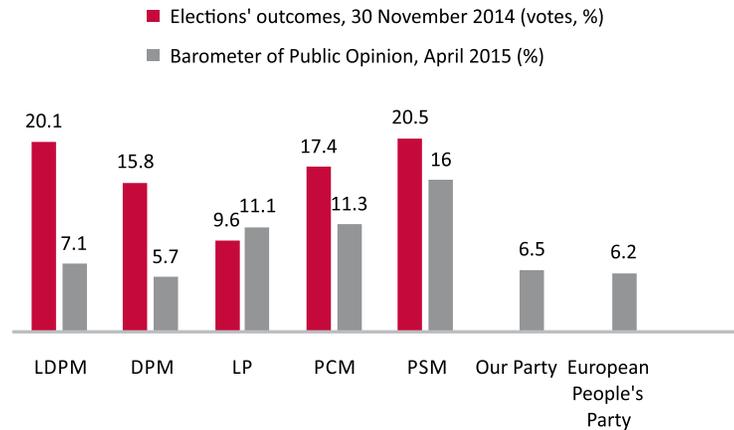
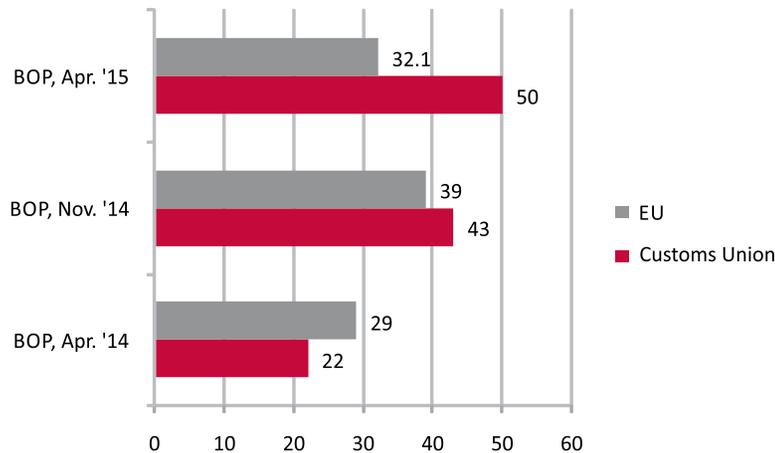


FIGURE 10. Distribution of Geopolitical Sympathies of the Population, according to Public Opinion Barometer %



The failure to combat corruption in politics and its ongoing development, the “capture” of institutions from different areas (judicial, banking, customs, public procurement sector, etc.), and infiltration of obscure interests in democratic processes (parliamentary and local elections) have seriously undermined the security of democratic institutions in the state. At the same time, the national security of the Republic of Moldova is affected by the military conflict in Ukraine and new separatism outbreaks, caused by the Russia’s actions (information war, military and material support for paramilitary groups, etc.).

Thus, in the period under review, the domestic and foreign politics have registered the following major trends:

Strengthening of Pro-Russian Parties and the Decline of the Pro-European Bloc. The support for European integration has been eroded as a result of compromise of pro-European parties, which mimicked lacked the commitment toward reforms and mismanaged several important matters (e.g.: concession of Chisinau Airport, banking crisis, the legalization of duty-free shops in the Transnistrian region). On the other hand, the popularity of pro-EU forces fell under the influence of measures applied by Russia (trade embargoes), which also stimulated interest in the pro-Russian party (SPRM).

Transition from Romanticism to Pragmatism in the EU–Moldova Dialogue. European partners became more pragmatic and critical than before in the relationship with Chisinau. Thus, the EU is tending to focus its efforts on increasing transparency on the content of bilateral dialogue and reinforcing communication capacities, including for Russian-speaking minorities, conditioning the European assistance on the implementation of reforms. In any event, the provisional application of the Association Agreement (1 September 2014), and the creation of the bilateral institutional framework (Association Council, March 2015) have strengthened the strategic EU–Moldova partnership.

Resuscitation of the Russian Factor and Collateral Effects of the Ukrainian Crisis. The attacks launched by Russia against countries that signed an Association Agreement with the EU has targeted the Republic of Moldova in several ways: (i) trade embargoes; (ii) restricting the access of Moldovan migrants; (iii) “corrupting some regions” (political or economic support provided to the Transnistrian region or Gagauzia); and (iv) the information war. The Russian militarization and maintenance of separatists in Eastern Ukraine had spillover effects on the political and economic situation in the Transnistrian region.

Wider Implications and Risks

The developments during 2014–2015 have serious impacts on several fundamental aspects for the country’s sustainable development:

Implementation of Structural reforms (justice reform, fight against corruption, etc.). Although they are crucial for the revival of institutions and stimulation of economic growth, they depend entirely on political will. Thus, the alleged pro-European forces are the biggest culprit for the abandonment, postponement and incomplete implementation of reforms. At the same time, the constant uncertainty about the potential early elections due to government dismissal or the blockage around the presidential elections of 2016 supports the constraints limiting the speed and framework of reforms.

Low Efficiency of European Integration. The political elites continue to fail to truly and irreversibly “Europeanize”, or to eradicate political corruption. On the contrary, political actors use the alleged affiliation with the EU to strengthen their influence on state institutions and decision-making process in the state. At the same time, European integration, formalized through the implementation of the Association Agreement, is often understood improperly in the Moldovan society. In most cases, the country’s public opinion approves on a selective basis the opportunities provided by EU, but refuses to assume fully the obligations to fully assume fully obligations.

Erosion of the European Model versus Emergence of the Eurasian Model. Although European integration brings tangible results (modernization of infrastructure, empowerment of institutions, trade liberalization, etc.), public opinion sees the EU through the failures of the alleged pro-European forces and Russian propaganda. The latter has actively presented the imaginary decline of the European model, at the same time presenting the Customs Union integration as a rescue and the only viable model for

Moldova's well-being. Against the background of the declining attractiveness of European integration and the ascension of the pro-Eurasian grouping, there are various trends of social fragmentation: (i) revival of the unionist movement that advocates the idea of Moldova joining Romania; and (ii) a deepening division between the center and periphery (Chisinau and Comrat, Chisinau and districts inhabited mainly by Russian speaking minority non-native groups).

Effects of Events from the Ukraine. Media impact – the Ukraine military conflict and its destabilization (annexation of Crimea and propaganda of separatism) have a negative, anti-EU impact on some large segments of the Moldovan public opinion, which are consuming the Russian propaganda. **Transnistrian region** – Russia's control over the separatist region, as well as Russian military potential in the region, led Ukraine to undertake measures to prevent the threats coming from that region. In this respect, the control over the flow of persons and goods designated for export and import from region was intensified. As a result, the region's economic situation has worsened, causing social and political pressures. This increased the level of distrust between the Ukraine and Tiraspol administrations in the 5 + 2 negotiations, which have extended over the Chisinau–Tiraspol dialogue. In addition, the separatist demonstrations in Odessa region, with Russia's support, generate additional risks for the maintenance of the Transnistrian region in the "frozen state".

The analyzed aspects generate many risks related to the security of democratic institutions, as well as national security:

- **Instability Outbreaks Spread Across the Country. Deepening the division between the center and periphery** – following the local elections in June 2015, the potential for future cracks in the dialogue between central and districts/regions has increased. This may worsen in the context of administrative decentralization and strengthening of the local public authorities (LPAs') financial autonomy. **Institutions captured by obscure interests** – by taking through democratic tools (elections) the control over several LPAs by various interest groups, (geo)political rivals against the Government. This phenomenon is favored by the permissive legislation (funding of political parties) and dysfunctional institutions. As a consequence, new conflicts may appear between the center and regions (Gagauzia, Balti municipality). **Ascension of the unionist movement** – this may deepen the conflicts between the adherents of Moldovan statehood (in the country and abroad) and promoters of reunification. This may damage the image of European integration used by the unionist movement to increase its legitimacy, affecting the relations with the neighboring countries – Romania, Ukraine, and Russia.
- **Political Crises Caused by the Inability to Elect the President in 2016.** The existing polarization in the legislative body, where a minority coalition and three opposition parties coexist, reduces the chances of a common point of view in respect to the future candidate for president. Moreover, the minority government has a difficult task to survive any censure motion that could precede the president's election in 2016.
- **Failure of the European Grouping.** This was caused by the decline of pro-European parties, ascension of pro-Eurasian parties and lack of a reliable political alternative. This could lead to the abandonment of reforms, which are fundamental for the modernization and even for the sustainability of the Republic of Moldova as a country. In this case, financial and technical assistance (including direct budgetary support) from the EU will be stopped, or considerably reduced, and redirected toward countries with European aspirations in the region (Ukraine, Georgia). Finally, the "transformational transformer" model applied by the EU to reform the Republic of Moldova will be replaced with a Eurasian model that excludes structural reforms (of the judicial sector, fighting corruption). Therefore, the fragile stability of democratic institutions will be undermined significantly (good governance, justice, human rights, etc.).

- **Degradation of the Situation in Ukraine.** The situation in Ukraine is unstable, which is why the degradation can worsen at any time. Peace in the Eastern regions remains fragile and depends on Russia's behavior, whose objective is to "transnistriize" Ukraine and erode the European-leaning groups. The worsening situation in the Ukraine will have negative effects on the Moldovan economy and politics, destabilizing the situation in the Transnistrian region and generating pressure and mistrust between the various parties (Kiev–Tiraspol, Tiraspol and Chisinau) of the 5 + 2 negotiation format. The cancellation of the Autonomous Trade Preferences in the Transnistrian region (planned for the end of 2015) and simultaneous implementation of the DCFTA by the Chisinau and Kiev could lead to the repetition of the 2006 crisis, when their leaders were accused by Russia and Tiraspol of imposing an "economic blockage" for the breakaway region.

Recommendations

- **Democratize the Political Parties and Eliminate the Hidden Interests:** (i) introduce clear rules of democratic behavior (approval of a Single Code of Ethics, required by the Law on Political Parties, and Electoral Code, and monitoring of their implementation); (ii) define mechanisms to ensure extended, permanent and publicly accessible transparency of all internal funds of political parties (by amending the electoral law); (iii) strengthen the capacities to monitor the civil society and mass media with regard to the internal democracy in parties; and (iv) combat political corruption (reform in the judicial system, eradicate the "big corruption").
- **Strengthen the Democratic Institutions and Eliminate a Potential Political Deadlock in 2016:** (i) cooperate with European institutions (Council of Europe, particularly the Venice Commission and the Group of States against Corruption) to fulfill all the commitments assumed by the Republic of Moldova toward the EU in the Association Agenda; and (ii) urgently amend the Constitution (Article 78) to ensure a democratic and sustainable solution for the election of the president.
- **Strengthen the European-Leaning Grouping and Counteract the Russian Propaganda:** (i) reinforce, systematize and complete the communication tools in the area of European integration and continue combating the myths about the benefits and constraints of the Association Agreement/DCFTA; (ii) counteract Russia's information war (amend the media legislation, strengthen the institutions); (iii) extend the communication about European integration among minority groups and regions (Balti municipality, Gagauzia, Taraclia, Transnistrian region); and (iv) disseminate accurate information about the goal and de facto situation of the Eurasian geopolitical initiatives.
- **Establish a Strategic Dialogue with Ukraine.** Develop the trilateral cooperation in the security area of Chisinau–Kiev–Brussels, for the purpose of preventing, mitigating and managing the security risks of Moldova and Ukraine (Russia's actions in the region, Transnistrian conflict) with the EU support. In addition, urgent identification of a reliable mechanism of DCFTA implementation in Transnistrian region is crucial in order to prevent repetition of the 2006 crisis (in a much more negative way), which was a pretext for Tiraspol and Moscow to paralyze the 5 + 2 format.

TABLE 5. Main Indicators Monitored Regarding the Political Situation

	2012	2013	2014
Acts of corruption or corruption-related acts, identified by NAC ⁴⁸	-	374	448
Transparency of Government policies Embezzlement of public funds ⁴⁹	61 108 (out of 144 countries)	81 123 (out of 148 countries)	69 123 (out of 144 countries)
Corruption Index, Transparency International	94 (out of 176 countries)	102 (out of 177 countries)	103 (out of 175 countries)
Media Freedom (World Press Freedom Index)	53 (out of 179 countries)	55 (out of 179 countries)	56 (out of 180 countries)
Peace Index (Global Peace Index)	66 (out of 158 countries)	74 (out of 162 countries)	71 (out of 162 countries)

⁴⁸ <http://expert-grup.org/ro/biblioteca/item/1095-euromonitor-214>.

⁴⁹ Global Competitiveness Report developed by the World Economic Forum.

About Expert-Grup

WHO WE ARE

Expert-Grup is a Moldovan non-governmental and not-for-profit organization specialized in economic and policy research. Expert-Grup does not represent any economic, corporate or political interests. As independent organization, Expert-Grup reflects the ideals of the young Moldovan intellectuals who have created the institution with the purpose of contributing to Moldova's development. Among other types of organizations in the Moldovan civil society, Expert-Grup positions itself as a politically and ideologically neutral think-tank.

OUR ACTIVITIES

Our core activity is economic analysis, forecasting and policy research. In this area, we offer a wide range of analytical products and services helping our beneficiaries to take decisions supporting the development path of Moldova. Our key competence consists of the ability to provide professional, high-quality and objective research in such broad areas as:

- Macroeconomic analyses and forecasts;
- Political economy;
- Public finance;
- Human development and poverty reduction;
- Labour market and consumers' behavior;
- Foreign trade;
- Financial markets;
- Economy of European integration;
- Economic analysis by sector;
- Regional and local economic development;
- Energy and economy of environment.

PARTNERS AND DONORS

During 2006–2014 Expert-Grup implemented over 60 research and advocacy projects in various areas related to economic research and public policies. Over 100 experts, both affiliated and not affiliated to our institution, from Moldova and abroad, were involved in these projects. We have worked with such donors as Soros Foundation Moldova, East Europe Foundation, Konrad Adenauer Stiftung, Balkan Trust for Democracy, Black Sea Trust, Friedrich-Ebert-Stiftung, UNDP Moldova, UNICEF, European Commission, Council of Europe, Open Society Foundation, Swiss Agency for International Cooperation, and United Kingdom Department for International Development. In 2010 and 2012 Expert-Grup was selected as a member of the National Participation Council. Since 2008, Expert-Grup has been a member of the Policy Association for an Open Society – an international network consisting of 56 think-tanks from various European countries.

About Friedrich-Ebert-Stiftung

Friedrich-Ebert-Stiftung (FES) is a German political social-democratic foundation that aims at promoting democracy, peace, international understanding and cooperation. FES fulfills its mandate in the spirit of social democracy and devotes itself to public debates finding social-democratic solutions to current and future issues of the society.

FES IN MOLDOVA

in the Republic of Moldova, FES aims at fostering European integration, democracy, peace and social justice through political dialogue, education and research. Our main areas of activity are the following:

DEMOCRATIZATION AND POLITICAL PARTICIPATION

Moldova faces the challenge of consolidating its democratic institutions and developing a democratic culture that brings the country fully in line with standards of the European Union. FES contributes to this process by promoting political participation in civil society organizations, political parties and local self-governing bodies. A particular focus of FES activities in this area is on empowering citizens in the regions. Citizens need to be empowered to be able to critically follow public debate, monitor political stakeholders, articulate their views, and act on behalf of their interests. Therefore FES has engaged in activities to promote participatory democracy and an enhanced citizens' civic and political culture on the local level.

EUROPEAN INTEGRATION

Moldova is part of the European Neighborhood Policy and the Eastern Partnership. FES supports the European integration process of the country. Through a series of instruments such as radio debates, news bulletins, policy papers, publications and conferences, FES focuses on the main challenges related to the European integration process, facilitating the access of the public to up-to-date and reliable information on the topic, improving the dialogue between civil society and decision makers on the requirements for successful European integration, and contributing to strengthening the European integration efforts of Moldovan authorities. Additionally, FES supports non-governmental organizations in contributing to a peaceful resolution of the Transnistrian conflict as a prerequisite for successful European integration in the long run.

ECONOMIC, SOCIAL AND ENVIRONMENTAL POLICY

In this area the FES supports its partners in developing and implementing policies for a functioning market economy that is sustainable, socially balanced and able to address the needs of all citizens. Input and projects in the area focus on topics such as reforming social security systems, improving working conditions and labour market opportunities, and fostering sustainable development. Additionally, FES runs programs that aim at promoting social-democratic values.



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