

11. FIGHTING CORRUPTION TO IMPROVE GOVERNANCE

The analysis of the economic development of all countries in transition shows that this process is much more problematic than expected at the beginning. Moldova's three-fold economic decline in the past nine years has placed it at the lowest level of GDP per capita (US\$ 454) amongst the transitional countries. The decline is evidently not solely a result of combined unfavorable climatic conditions, the war in Transnistria and the lack of financial resources. Rather, an added major reason for this performance is an inefficient governance. Lack of experience and professionalism in governing a newly formed sovereign state, unfavorable economic conditions, permanently changing circumstances, lack of understanding and support from the population's side, lack of political will and fear of making major steps towards market reforms, and last but not least, the realization that the average life of the governments so far has been too short to allow for significant changes, have all contributed to the poor level of governance in the country. But, perhaps, the single factor with the most negative impact on the governance and the development of the country has been corruption. Over the last few years, the problem of corruption intensified in a number of transitional countries, and in some cases took over the structure and function of the state, with inevitably dire consequences.

Borrowing the analogy with epidemics, corruption can be viewed as a disease capable of fast spread at multiplying rates, unless the proper dose of vaccination is applied in good time and with sufficient coverage. Moldova, like many other countries, has been facing the problem of contagious corruption for decades. The initial phase of the process of transition (1989-92), from an administrative, command system to a market system did not interrupt the unofficial connections at the top level of the officials, of those who had the privileges and the priorities in accessing goods, finances, information and services. Adherence to a political "clan" was a kind of guarantee for their protection, and for barring legitimate security authorities from having access to information on their activities, including criminal activities. This kind of exclusivity at the top level meant that while the number of corrupt persons was relatively small the scale and dimensions of corrupt transactions were large and extensive. At a later stage of transition, identified with certain level of capital accumulation (1993-95), the number of such transactions increased significantly.

During 1996-1999, when the real legal incomes of the population declined and the reserves were exhausted, small acts of corruption became a "norm" of behavior.

Such quantitative evaluation of the evolution of corruption phenomenon, as are the sociologic opinion poll, would not be objective because of poor public access to information. Thus, while in 1989-1994 the information regarding the findings of auditing bodies was confidential, and in 1994-1998 the access to it still limited, by contrast in 1999 the results of the Accounting Court Audits were published in "Monitorul Oficial". This was a step in the direction of some transparency.

Corruption is a transnational problem. Data of the opinion poll carried out amongst 150 of top-level managers in more than 60 countries showed that corruption in those countries was viewed as the most serious problem impeding the development of the countries concerned³³. According to some surveys by the World Bank, the NIS hold the first place in terms of corruption.

Corruption became a main concern of global policy in more recent years. In 1999 alone several international forums took place including Global Forum on Fighting Corruption

³³ EBRD, 1997, Transition Report 1997 – enterprise performance and growth, (London European Bank for Reconstruction and Development)

(February, Washington, hosted by Vice-President of US Al Gore), The IX International Anti-Corruption Conference (September, Durban, South Africa, Transparency International), the Second Annual Meeting on fighting Corruption (November, Istanbul, OECD), as well as local anti-corruption conferences (November, Budapest, Central European University, November, Riga, USAID), etc. In his address to the Board of Governors of the World Bank Group, at the joint Annual Discussion (September 1999), the President of the World Bank James D.

Wolfensohn mentioned: „... Countries may come up with sound fiscal and monetary policy, if they do not have a complete legal system which protects human rights, property rights and contracts, which gives a framework for bankruptcy laws and predictable tax system; if they do not have an open and regulated financial system and appropriate regulation and behavior that is transparent, their development is fundamentally flawed and will not last”.

Corruption, has a strong impact on the economic, social, politic and ecologic development of a country.

The economic impact of corruption is far-reaching in many countries, as data from numerous studies in this domain show. Vito Tanzi³⁴ uses empirical data to argue that corruption serves as an *obstacle against three main functions of the state – macroeconomic policy, resource allocation and redistribution of goods and welfare*.

One of the manifestations of the economic impact of corruption is the *increasing costs of transaction*, particularly in carrying out small business activities and diminishing the competitiveness of the products and services. According to some estimates, the additional payments to obtain licenses, for so-called “protection”, and for an expeditious settlement of formalities by state officials amounts to 40% of the profit.

The economic instability exacerbated by the expansion of the underground sector, by rackets, corruption and bureaucracy in preparing business documents, and the Government’s inability to ensure producers’ security *discourage investors and innovative ideas*.

Paolo Mauro³⁵ has offered a model to find the *impact of corruption on investment and growth*. He shows that a fall of the corruption index (Transparency International) by a medium square deviation (2.4 points) is connected with a 4 percentage points growth in the share of investment in the economy and a 0.5% increase in the rate of economic growth.

Shang-Jin Wei³⁶ has analyze the *impact of corruption on direct foreign investment*. He has found that a unit increase in the corruption index (on a scale of ten) is equivalent to a 4.7 percentage points increase in the marginal tax rate, and is accompanied by a decline of 0.9 percentage points in the direct foreign investments.

A study by the World Bank³⁷ (1996) shows that countries with a high level of “predictability” of corruption are characterized by a “gross investments/GDP” rate of 19.5%. In countries with a low level of predictability of corruption this rate stands at only 12.3%. It is not surprising, therefore, that in countries with combined high predictability and low level of corruption this ratio is as high as 28.5%.

³⁴ Tanzi, Vito, and Hamid Davoodi, 1995, “Government Role and the Efficiency of Policy Instruments”, IMF Working Paper N97/139 (Washington, D.C.: International Monetary Fund)

³⁵ Mauro, Paolo (1996), “The Effects of Corruption on Growth, Investments”, IMF Working Paper N96/98

³⁶ Wei, Shang-Jin, “How Taxing is Corruption on International Investors”, NBER Working Paper Series, Working Paper 6030

³⁷ Segal, Philip, The Hell of Corruption, *The IFC Review of private Investment in Developing Countries*, Spring, 1999, Vol.3,Nr.2

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An inverse link between *corruption index and public investment*³⁸ is investigated by Vito Tanzi and Hamid Davoodi.

The phenomenon of corruption actions taken in favor of some individuals, evasion of tender and competitive procedures causes an increase in the cost and a *drop in the quality of public projects*.

Corruption creates inequity, unfair competition by using the state institutions and diminishes the economic efficacy. A study by Gupta, Davoodi, and Alonso-Terme³⁹ shows that there is a strong correlation between corruption and the degree of inequity in the country. But the main economic impact of corruption is certainly the *growth of shadow economy*.

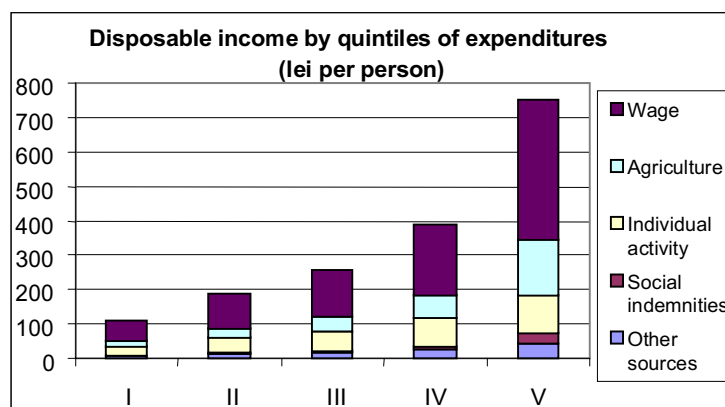
The combined impact of corruption, shadow economy and crime is manifested by the *macro-economic instability and the country's vulnerability to financial crisis*. The annual macro-business turnover in Moldova is estimated at US\$ 200-250 million, which is 3.5–4 times higher than the annual foreign direct investments in Moldova, and than the amount of foreign currency reserves with the National Bank of Moldova. The drug traffic is an area controlled by very few people. Therefore, any single capital outflow or inflow triggered by this sector alone could, in fact, impair the stability of the financial system.

The relation between corruption and economic development is dual: on the one hand, the low level of economic development and incomes stimulates the rise in corruption. On the other, corruption disturbs the development in the formal economy, and stimulates the development of shadow economy.

Social impact. The shadow economy *creates work places, that reduce the unemployment level*. The significant gap between the official record of unemployment rate (about 2% according to Statistical and Psychological Analysis Department, and 9.4% based on the criteria established by the International Labor Office) and the fact that more than one third of the able-bodied population is officially treated as inactive, without clearly stating any source for their livelihood, suggests that a considerable proportion of population is involved in informal economic activities. The calculations by the Strategic Studies and Reforms Center show that about 47% of the labor force is involved in such economic activities.

The shadow economy *generates additional income* for the participants and members of their families, and sometimes it is the only source of their living. This sector's existence in parallel with the formal economy, in fact, generates 60% of additional income. This income is, however, *unequally distributed* among the population and the gap between the rich and the poor

Figure 11.1



Source: Department of Statistics and Social Analysis

³⁸ Tanzi, Vito, and Hamid Davoodi, 1997, 'Corruption, Public Investment and Growth', IMF Working Paper N 97/139 (Washington, D.C.: International Monetary Fund)

³⁹ Gupta, Sanjeev, Hamid Davoodi, and Rosa Alonso -Terme, 1998, 'Does Corruption Affect Income Inequity and Poverty?', IMF Working Paper

is actually greater than that stated in the official records. Hence, the consumption of meat in families officially stated as having the same level of income is on average 60% higher for those employed in the private agricultural sector, where the level of informal activities is higher than it is for those engaged in the public sector.

The vulnerable layers of society are the most severely affected by social inequity, which is in turn worsened by protectionism. With no political influence, the vulnerable layers of the population are often subject to increased social pressures. Thus, according to the Household Budgets Survey carried out by the Department of Statistical and Sociological Analysis with the financial assistance of the World Bank, in 1997 the social benefits received by each member of the families at the highest level of income (level V by disposable income is about five times higher than those received by families at the lowest level of income (level I). An inequitable social system inevitably appears where layers of population earning a higher income enjoy most of the social benefits. An unfair social system is thus created sustained.

The activities in the underground sector of the economy are not entitled to social assistance and protection from the state: the requirements with regard to working conditions, working time and minimal labor remuneration are not met. There is an abuse of the work performed by minors and women, the system of temporary sick leaves is not in operation, the system of official holidays is ignored, so is the pension system, etc. A special case is the illegal employment of Moldovan citizens in other countries. There are not any agreements between the Republic of Moldova and other countries on the export of labor force. Therefore, there are many cases where upon the completion of work, the individuals illegally employed abroad are paid less than initially agreed, or are not paid at all and expelled from the country, or they become enslaved by some local criminal organizations. During 1999 alone the Public Prosecutor opened 50 criminal files for firms offering “services” of illegal hiring abroad. At least 4000 of citizens of the Republic of Moldova have been affected by the activities of these firms, extorting more than US\$ 600 thousand.

The presence of a large underground sector gives *rise to an excessive tax burden*. The state budget is dependent for its income on formal economic activities. However, most of budget expenses also serve the interests of those people who are not paying taxes (such as subsidies in energy bills, use of public services, etc.). Therefore, while the average tax burden for the economy is about 30%, the actual tax burden on some economic entities operating within the formal economy is certainly higher (40-60%).

The shadow economy and corruption *impede human development of the nation:* an increased level of tax avoidance reduces the budget receipts, which in turn, causes problems in devising and implementing appropriate social, pension, education, health, environment policies. A weak legal framework erodes moral principles of the society. According to an opinion poll conducted as part of the “Development Strategy” project, about 52% of the respondents believe that it is impossible to conduct a business activity in the country without breaking the law. There occurs the situation where breaking the law becomes a standard behavior.

Another effect of shadow economy lies in its *adverse impact on consumers by providing them with low quality goods and services*. The findings of a production quality inspection on a network of trade outlets conducted by the National Standards, Measurement and Certification Center show that breaching the standards / infringements ranges from about 40% of the total food products to 70% of goods for children. In imported goods the rate is as high as 79%.

In many cases a parallel economy functions in direct connection with the criminal world thereby *threatening the personal security of the people*.

The impact on the political security of the state

Corruption *favors the emergence of an economic and political clan*, which imposes its wishes on the society, causing an enormous increase in state debts. Moldova has very high debts on energy. Nevertheless, it imports gas at a much higher price than the world price, charging no transit fees on gas carried over the territory for re-export. Notably, the transit charges for gas on the territories of the neighboring countries exceed Moldova's GDP. Moreover, the installation of incoming and outgoing gas meters on its territory is delayed.

The increase in the level of tax avoidance and the decline in the budget receipts have contributed to the failure of policies with regard to enterprise and small businesses and social support, education, health, environment and the remuneration of public sector's employees. This, in turn, impoverishes the population further, and *undermines the confidence in promoted reforms*.

The Government's inability to ensure that its employees are paid decently paralyzes state institutions, *prejudices citizens' rights and guarantees which are ensured by the constitution*, discredits the state system, and causes the state to lose public respect.

The impact on environment. The fact that certain groups of people impose their interests on the society in order to obtain immediate profits without "amortization" of environmental resources, results in environmental deterioration.

International comparisons. According to the evaluations of Transparency International, Moldova is placed in the group of countries with a high index of corruption. On a descending scale of 0 to 10 (with 0 representing total corruption and 10 total lack of it), Moldova scored 2.6 in 1999. According to this scale, Moldova is placed on the 76th place, after Romania, but having a considerable gap, and on the same line with Ukraine, followed by Armenia and Russia.

However, there are some other evaluations of the quality of governance and the spread of corruption in different countries. In a joint study by the EBRD and the World Bank an opinion poll of about 3000 managers from 20 countries in transition was carried out (about 115 enterprises in every country, with a larger sample in Ukraine and Russia). The questionnaire included direct and indirect questions in order to evaluate the impact of corruption and poor governance on the private firms' activity and economic development of the whole country.

Firms were asked if they were satisfied with basic services that need to be provided by the state for the proper functioning of markets.

These services were grouped in

Table 11.1.
Corruption Index, 1999

Slovenia	6
Estonia	5.7
Czech Rep.	4.6
Poland	4.2
Lithuania	3.8
Slovak Rep.	3.7
Belarus	3.4
Letonia	3.4
Bulgaria	3.3
Romania	3.3
Moldova	2.6
Ukraine	2.6
Armenia	2.5
Russia	2.4
Albania	2.3
Georgia	2.3
Cazahstan	2.3
Kyrgyzstan	2.2
Yugoslavia	2
Uzbekistan	1.8
Azerbaijan	1.7

Source: Transparency International

Figure 11.2



four large blocks: *law and order* (judiciary, corruption, street crime, organized crime), *microeconomic governance* (taxes and regulations), *macroeconomic governance* (policy instability, inflation, exchange rate), and *real infrastructure*.

Data from the poll show that amongst those 20 countries in transition Moldova holds the 15th place from the top in terms of microeconomic governance (the index being equal to 0.52 out of a maximum of 3.0), the last place for the quality of macroeconomic governance (the index being 0.35), the last place for infrastructure (index being 1.42), and the last but one with regards to law enforcement (index being 1.1). According to the aggregated quality of governance index, Moldova holds the last place, with an index of 0.82.

Table 11.2

Quality of governance index

	Micro-measures	Macro-measures	Infrastructure	Law and order
Hungary	0.92	1.72	2.42	2.34
Slovenia	1.17	1.73	2.26	2.23
Estonia	1.25	1.74	2.38	2.17
Uzbekistan	1.4	1.44	2.11	2.16
Armenia	0.55	1.15	2.21	2.32
Poland	0.96	1.53	2.37	1.82
Slovak Republic	0.88	1.68	2.11	1.7
Czech Republic	0.8	1.35	1.57	1.97
Belarus	0.67	0.77	2.18	2.25
Lithuania	0.69	1.7	2.19	1.48
Azerbaijan	1.02	1.59	1.73	1.56
Croatia	0.67	1.18	2.13	1.62
Bulgaria	0.9	1.25	1.77	1.49
Kazakhstan	0.75	0.72	1.85	1.68
Georgia	0.67	0.93	1.78	1.47
Ukraine	0.34	0.77	1.76	1.68
Russia	0.47	0.65	1.91	1.54
Romania	0.45	0.6	1.49	1.48
Kyrgyzstan	0.46	0.48	1.85	0.98
Moldova	0.52	0.35	1.42	1.1

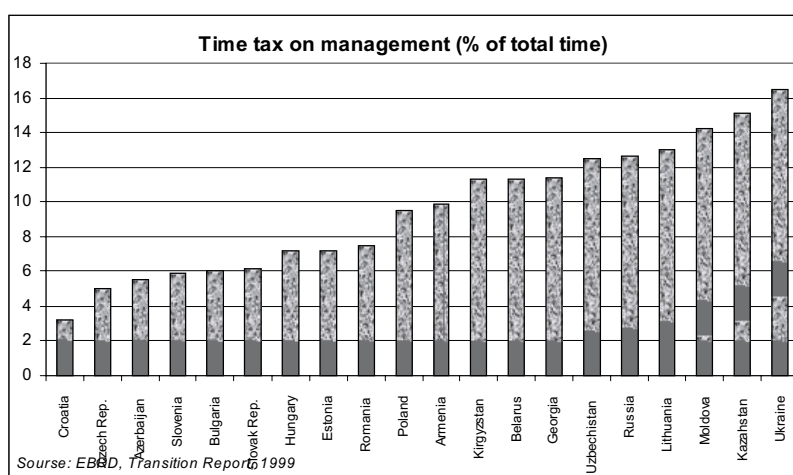
Source: EBRD, *Transition Report, 1999*

It is difficult to appreciate how objective this evaluation is, since the interviewees came from different cultural and psychological backgrounds. This means that the attitude of the respondents towards notions such as “corruption”, bribe, public servants ethics and integrity differs from country to country.

This difference was evident also amongst the official representatives of anti-corruption institutions from different countries during the second annual Anti-Corruption Meeting in Istanbul in November, 1999. Those from Russia were arguing that 500 dollars in Russia is not a bribe, but an oral form of gratitude. Those from

Kyrgyzstan, considered giving a sheep to someone a sign of respect and gratitude. It is also

Figure 11.3



Source: EBRD, *Transition Report, 1999*

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perhaps natural that while evaluating a situation, respondents would make comparisons with their own situations in the past, rather than make international comparisons.

Figure 11.4

In spite of the fact that these evaluations could not be entirely objective, it is clear that the position of Moldova in these terms is unfavorable. Thus, about three quarters of Moldovan firms mentioned that the legal system does not protect their property rights. In Estonia, for example, only 22% of the firms feel unprotected. Moldovan managers of enterprises spend 17% of their total working time with public officials. This is the top figure amongst all countries in transition. In Croatia this time constitutes only 3% of the total.

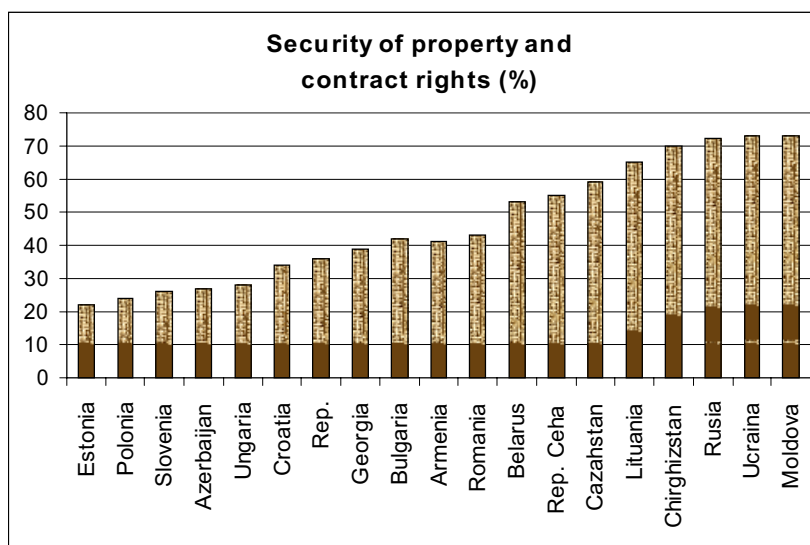
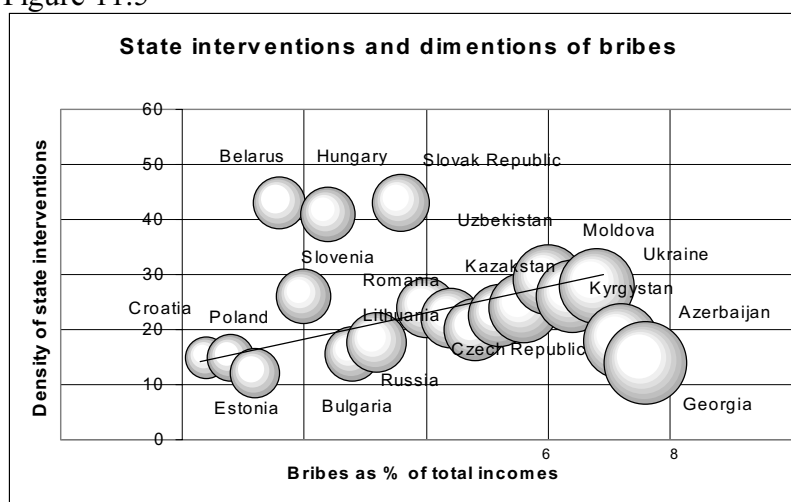


Figure 11.5

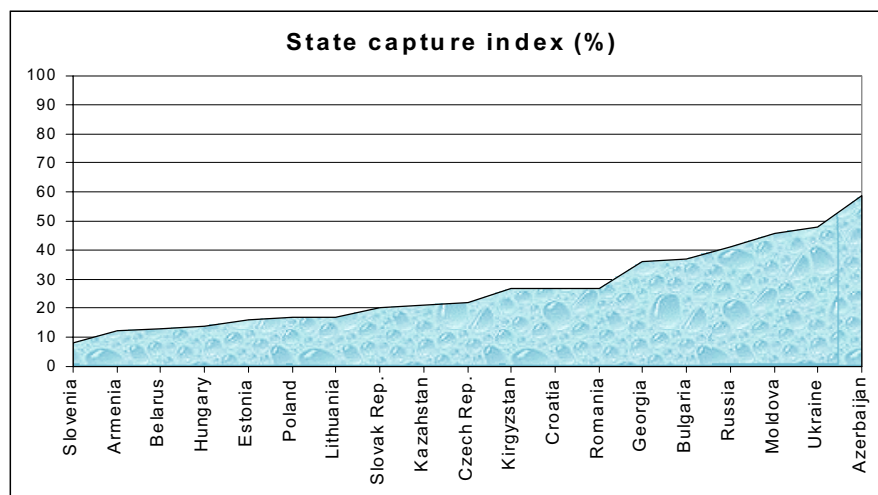
In principle, these results are not surprising. Data of the Survey on Identifying the Impediments to Development of Private Farming Enterprises and Related Small Rural Business in Moldova carried out by the Center for Strategic Studies and Reforms in collaboration with Carana Corporation show that auditing bodies create obstacles for the development of private business by frequent extortion of money. Thus, in 1998-1999 25 farms were visited 12 times by the fiscal inspector, with 12 of the entrepreneurs visited as frequently as 15-20 times. One entrepreneur complained that he was visited 50 times by the fiscal inspector in one year. Nine entrepreneurs were visited by the fire inspector 11 times over one year, one visited 30 times. Visits of the electric nets inspectors are not less frequent : 32 companies were visited 12 times, 10 companies between 16 to 100 times.



State Capture Index⁴⁰ proposed by the EBRD stands at 46% for Moldova. Only Ukraine and Armenia face a more difficult situation than Moldova in this respect. According to the data from the above-mentioned poll, about one third of Moldovan firms pay bribes very often. According to this indicator, Moldova is placed in the middle rank of all transition countries. Regarding the relative scale of bribe in comparison with total annual income, Moldova is placed amongst the first five countries. A more discouraging situation for the producers can be

mentioned in Georgia, Armenia, Azerbaijan and Ukraine. A direct relationship between the density of state interventions and the magnitude of bribes, as well as an inverse relationship between the degree of privatization and the corruption index have been established by these findings.

Figure 11.6



Source: Transition Report, 1999, EBRD

State budget deficit and unjustified expenditures.

Moldova permanently faces the problem of budget deficit. This is not only due to the fact that it is almost impossible to reduce the expenditure side in a significant way, but also due to an unrealistic estimation of the budget revenues. For instance, the phenomenon of growing tax evasion is not taken into consideration. As a result of such unrealistic estimates, various sources of revenue in 1998 budget fell short by 8.7% to 300% in reality. The Law of the Budget for 1998 was subjected to five rounds of changes. In itself underlining the poor quality of governance.

Poor governance implies pauperization of population. During 1998 salary arrears grew by lei 276 million. In some areas retired people received their pensions for December 1998 as late as in November 1999. Numerous programmes supporting education, science, health, environment, the elderly, families with many children

Table 11.3

Frequency and extend of the bribe tax

	Percentage of firms bribing frequently	Average bribe tax as % of annual revenues
Armenia	40.3	6.8
Azerbaijan	59.3	6.6
Belarus	14.2	3.1
Bulgaria	23.9	3.5
Croatia	17.7	2.1
Estonia	12.9	2.8
Georgia	36.8	8.1
Kazakhstan	23.7	4.7
Kyrgyzstan	26.9	5.5
Lithuania	23.2	4.2
Moldova	33.3	6.1
Poland	32.7	2.5
Czech Republic	26.3	4.5
Romania	50.9	4
Russia	29.2	4.1
Slovak Republic	34.6	3.7
Slovenia	7.7	3.4
Ukraine	35.3	6.5
Hungary	31.3	3.5
Uzbekistan	46.6	5.7

Source: Transition Report, 1999, EBRD

⁴⁰ "State capture commonly refers to the extend to which government policy -making is unduly influenced by a narrow set of interest groups in the economy who provide private benefits to politicians" ("Transition Report, EBRD, 1999)

and entrepreneurs all failed due to the lack of budget revenues. At the same time, there were remarkably numerous breaches in the fiscal legislation.

According to the Report of the Accounting Court of the Republic of Moldova on the results of control over the management and utilization of public material and financial resources for 1998, as a result of the lack of an efficient system of control on the part of the State Fiscal Control and State Custom Department, tax evasion has become a “norm” for the majority of economic agents. It is argued that the budget revenue could have been twice as high otherwise.

In 1998, the Social fund administration applied certain methods of accumulating the social insurance funds involved fake documents and netting out accounting between social fund and commercial entities. This has probably resulted in unjustified expenditure of some considerable amount.

Against the background of spread pauperization and the stringent financial resources, it is even less justified for the state apparatus to continue to procure new cars, and allowing the disappearance of the old ones without any trace. A brief comparison between the typical official cars of 7 years ago and the present time reveals the considerable difference in their degree of luxury as well as the market value, normally standing at around US\$ 40,000 each. In 1998 there were purchased 5 cars for the State Chancellery for 40-50 thou dollars each, in 1997 Ministry of Internal Affairs procured 5 BMW cars and 20 – VAZ for the amount of about 200 thou dollars, Jeep Toyota Landcruiser for 30 thou dollars each for the Department of Financial Control and Revision.

Illegal privatization. The findings of the above-mentioned official body also reveals numerous cases of misappropriation of public funds. This causes considerable losses for the state budget. There are detected cases of illegal privatization of public property, avoiding the tender procedure, synthetic reductions in the estimated value of enterprises in the case of privatization by the personnel of the enterprise, as well as other forms of reduction of the value of enterprises (falsification of the year of establishing the enterprise, intentional smoke-screening?, or concealing the units belonging to the enterprise, exclusion of the former workers and retired staff from the privatization list, etc.

Illegal export-import. The problem of illegal exports and imports has expanded in alarming proportions. The volume of non repatriated currency is growing continuously. In 1996-98 the practice of under-selling of exports resulted in lei 500 million according to the estimates by the Accounting court.

Transnistrian problem creates additional losses to the state budget of the Republic of Moldova. In 1997-98 more goods were imported to Transnistria than to the rest of the territory, with respectively 1.7 and 3.1 times more for spirits, 9.7 and 19.4 times more for alcoholic beverages and 252 and 90 times more for cigarettes. This is particularly remarkable given that the population of Transnistria makes up a mere 12-15% of the total population of Moldova. Then it should be clear that the main consumption of the imported goods takes place in the mainland (the right side of the River Nistru), but without any contribution to the state budget by way of paying the due imports duties.

Public procurements, manipulations of prices. Data of the report of the Accounting Court also contain numerous cases of breaking the rules of public procurements. Instead of adhering to a transparent tender procedure, services of some firms with questionable reputation are accepted with prices exceeding the market level, and the benefit shared between these firms and the public officials involved. The outcome is the transfer of considerable sums of public money to some private pockets, bypassing the market procedure of privatization, and hence distorting the market mechanism still further. A case in point could be the contract signed between the social Fund and the S.A. Petrol, concerning sugar

made from sugar cane imported from Brazil. The imported sugar was 65 bani per Kg above the market price. The presumably private profiteering out of this single contract amounted to more than lei 1 million, equivalent of the monthly wage of some 12,000 people in Moldova.

Another case: Social Fund supplies to S.A. „Petrol” 1196.5 tons of fodder wheat for a price of 263.2 lei per tone (1998), more than half of which was bought for a price of 450 lei per tone, which inflicted another lei 124.2 thou of losses to the State budget.

An example of import-export barter transaction in which the price for the goods were exported under market price, and imported goods – for an exaggerated price is the one made according to the contract for the firm „Hellis-Mag” for the export of 30 thou tones of sun-flower seeds, 30 thou tone maize, 15 thou tones of fodder wheat and 5 tones of oats. As a result of the transaction there were “lost” 4.9 million dollars. The report of the Accounting Court contains a great number of this kind of cases. The most sad is the fact that these transactions take place in the organizations where the most scarcity of financial resources takes place: Social Fund, Ministry of Health, Ministry of Education, penitentiary system (while the average daily expenditures per one convicted person is 0.7 lei).

The question of whether these transactions happen due to corruption or due to bad governance caused by lack of professionalism, does not really change their economic effect on the society.

Sale of forfeit goods. This presents an activity during which a considerable part of the value of goods “remains” in the hands of the public servants involved. This is particularly the case with smuggled sparkling wines, which were sold after being seized without a tender procedure for a three-fold reduced price. As a result, the budget lost lei 357.3 thousand. Another loss of lei 631.6 thousand was inflicted for similar reason regarding sales of vodka⁴¹.

Energy sector. Probably, the biggest corrupt transactions take place in the energy sector. Moldova’s debts for energy grow by an average annual US\$ 60 million, while the country continues to risk a total lack of energy resources. At the same time, improving the situation in the gas sector alone could solve the problem of debts for the whole energy sector. Thus, the absence of proper metering system in Moldova implies that losses of gas are estimated arbitrarily. These losses were estimated at US\$ 20 million over 1995-97. The reduction of such losses requires a verification of the actual consumption of gas first. Moldova pays for gas through a long line of intermediary firms, which transform the original payments in kind to payments in cash, and vice versa. This inevitably raises the transaction costs, and hence the price. While energy-related debts grow, the intermediary firms remain the sole profiteers out of the worsening situation.

One possible way to improve the situation is to establish a viable arrangement of payments for the transit of the Russian gas through the territory of Moldova. It could allow the annual collection of about US\$ 60 million, which could cover Moldova’s consumption of gas. The thing is it is not done because interests of a small group of persons prevail over the interest of the whole country.

Improving the quality of state governance cannot take place without reducing the corruption. Fighting corruption takes place by promoting transparency and accountability, establishment of control and law enforcement. In order to achieve this, a sustainable orderly system of governance is essential.

The implementation of a *policy for combating corruption* needs some extensive reforms in legislation, as part of the institutional reforms, and improvement of the system of regulation of fiscal audits. Although all these measures need to be implemented by the Government, they also require sufficient efforts on the part of the civil society:

⁴¹ Report of the Accounting Court, 1999

Legislation reforms would include:

- A clear definition of a penalty system for law breakers and adopting the Civil Code;
- Improving the preventive anti-crime measures;
- Appealing to the assistance by the international institutions in fighting corruption and economic crimes, applying for a global system of monitoring;
- Appealing to projects financed through foreign technical assistance to provide juridical expertise of laws and amendments proposed for adoption, improving the legal system, removing of contradictions and ambiguities giving rise to multiple interpretations of laws and regulations.

Amelioration of fiscal control procedures supposes:

- Simplification of regulations of state controls and audits, reduction of frequency of controls, systematization and unification of the work carried out by different audit agencies, establishing a unit for registering and regulating the number of controls of the same enterprise;
- Finalization of fiscal and accounting reforms;
- Publishing clear information regarding controls, rights and obligations of control agencies, of fiscal information, transparency of preparation and execution of state budget, including its sectors;
- Introduction of a mandatory tender system for public procurements.
- Reforming the fiscal and accounting systems, simplification and ensuring its transparency;
- Improving the qualification level of the control and audit personnel.

Institutional reforms foresee:

- Reduction of the number and size of state institutions, reduction of staff;
- A reduction in the “politicking” or political rhetoric within the Government, in favor of engaging in more crucial issues of governance, and the introduction of an obligatory system of professional promotion on the basis of performance and contest;
- Creation of independent institutions authorized to investigate the corruption charges;
- Introduction of a clear and definite system of ethic standards for the state employees;
- Applying methods other than personal visits for solving problems by using mail, including e-mail system, in order to impersonalise the process.

As *immediate measures for fighting corruption* the following suggestions should be considered:

- Identification of a number of key-agencies in the domains where a concentration of efforts is required to combat corruption, elaboration of a strategy for fighting corruption within ministries and in the main directions;
- Applying income declaration procedures for state employees, starting from the top level;
- Public examination of the most corrupt cases, announcing the punishment of the lawbreakers, and the directions where obtained money is spent (pensions, wages, repayment of debts, etc.);
- An immediate installation of gas counters at the entrance and exit points of the territory of Republic of Moldova.

In November 1999, practically a couple of days before the Mr. Sturza's Government resigned, the State Programme for Fighting Crime, Corruption and Protectionism for 1999-2002 was adopted, which includes some of the above measures. As this programme was adopted in a rush, it does not contain measures regarding nepotism, and needs to be improved. But, in principle, adopting this programme could be interpreted as a positive sign for international donor organizations. Whether this programme will be implemented by the new government remains to be seen.

One of the possible ways of detecting corruption is the enforcement of income declaration. This is mostly practiced in industrially developed countries, but is not necessarily of more popular than it is in Russia or Moldova, especially amongst the top officials! In Georgia, for instance, a system is already in place, whereby government officials ought to declare their incomes when they take office, as well as when they leave their posts. The expansion of income declaration to cover all entire work force certainly requires a considerable amount of resources in time and finance.

Moreover, an Anti-Corruption Center financed by UNDP is also operating in Georgia. The American BAR Association organized a multi-level training course for the judges in Georgia. However, 80% of judges did not pass the tests, and many of them were fired. As a result of these kinds of measures, the required standards in high professions can be improved, giving probably more impetus to professional ethics. This in turn could have some impact on reducing corruption.

No Government can do it alone. In any country, an equilibrium between the state and the civic society is needed. In countries where the state is stronger than the society often a dictatorship is established, and combating corruption becomes a formal declaration. On the other hand, if the civic society takes upon itself too frequently and rather arbitrarily oppose the state, on the accusations of corruption, this may lead to continuous instability. Yet, another case is a situation where the society tolerates corruption. That is to say that while the corruption is condemned, no practical opposition takes place, mainly because no-one is convinced that it would be of any consequence.

The degree of the maturity of the civil society depends on a series of objective and subjective factors: attaining certain democratic traditions, culture, education, psychology, national dignity, social and political situation. There are numerous cases when abuse of power is treated as a cultural "norm". It is rather unrealistic to expect a high degree of self-consciousness of its power from a society that has been subject to political and other kinds of repressions. This situation is a characteristic of autocratic states, based on horizontal links and solidarity, in which a bureaucratic hierarchy of norms has existed for a long time along with a preponderance of vertical relations of domination-subordination. In countries where for many years a strong state dominated a weak economy, and the civil society manifested

relatively meagre participation in political life, where the authority of a single party or cult dominated, and corruption was a form of survival, where the ethic and religious identity of the society was destroyed, corruption overcomes the weak resistance of the newly formed civil society much easier.

Formation of an integral civil society is a continuous and absolutely necessary process. Given that the transitional countries have to go through a “condensed” version to democratize, external assistance becomes vital. In this context, a special role belongs to NGOs, especially when they are involved at the grass-root reorganization. For that NGOs must be completely independent of state structures, although in practice this is not always the case.

The anti-corruption movement is important in particular regarding the following dimensions:

- **Humanitarian**, corruption oppresses and distorts human development and gives rise to the abuse of human rights;
- **Democratic**, corruption stands in the way of democracy;
- **Ethical**, corruption impedes the development of integrity of the society;
- **Practical**, corruption contributes to market distortions and deprives the society from its potential benefits.

Measures of fighting corruption undertaken by NGOs *may be grouped in four categories: research, relations with the state, relations with the civil society, collaboration with other institutions.*

Research would include:

- Analyzing corruption phenomenon: its genesis, causes, main forms, country specificity;
- Carrying out opinion polls which would allow the evaluation of the extent of corruption, both from the demand and the supply side;
- Investigating the possible links between corruption and the shadow economy.

Relations with the state would cover:

- Assuring transparency in various sectors of public, including political, life; transparency of financing political parties;
- Independent monitoring of privatization procedures of strategic entities;
- Specialized analysis of legal projects;
- Monitoring elections;
- Elaborating proposals regarding economic and social improvements in public procurement procedures;
- Lobbying the Government in order to adopt effective anti-corruption policies.

Relations with civil society would embrace:

- Assurance of public access to the information regarding general effects of corruption in the country by using mass –media;
- Creation of public web-sites regarding corruption;
- Elaboration of educational programmes for schools and public lectures oriented towards increasing the public awareness of corruption;
- Organization of professional workshops in support of investigative journalism, training in objective journalism and professional ethics in reporting;
- Promoting an educational campaign regarding citizens rights and obligations of public servants;
- Publication of informative bulletins, studies and reports.

Collaboration with other institutions would consist of:

- Conciliatory dialog between civic society, private sector and the state regarding anti-corruption campaign;
- Coordination of efforts in educational, religious and mass-media organizations and institutions in anti-corruption campaign;
- Participation in national and international campaigns which encourage adoption and implementation of higher standards of integrity and ethics in public services;
- Collaboration with public and private institutions, with similar national and international institutions, by supplying specialized consultation and joining in cooperation and partnership programmes;
- Exchange of experience of combating corruption with other countries.

Countries can not do it alone, nor can international organizations. This was the conclusion of the Second Annual Anti-Corruption Meeting in Istanbul, as well as of the IX International Anti-Corruption Conference from Durban (South Africa), 1999. Combating corruption in a single country is almost impossible as the bureaucratic resistance would be too strong. Even if there is a certain will to suppress this phenomenon, lack of practical experience, information and financial resources reduces its effectiveness. International organizations, such as OECD, European Council, United Nations, European Union, World Bank, USAID and TACIS, with experienced staff, information, finances cannot successfully combat corruption in any country unless the will and determination stems from within the country itself. That is why the problem can be solved only in an intensive collaboration between transition countries and international organizations. In line with the technical assistance these organizations may offer the best practices from similar programmes.

Conclusion: The quality of governance is affected in an absolutely negative way by corruption. Corruption impedes economic, political, democratic, social and ecologic development of the country. Any efforts in combating corruption can only be effective if the country enjoys a sufficient degree of democracy. A mutual respect and acceptability between the society and the elected state is essential in this regard. Fighting corruption in a single transition country is difficult if not impossible. Informational and financial support from democratic countries as well as international organizations is needed. International Forums on fighting corruption have concluded that it is highly important to address this problem.

12. POLITICAL STRESSES OF THE YEAR 1999

The year 1999 was a turbulent year for Moldova, a year when perhaps for the first time since independence a serious attempt to reform Moldova's fiscal system, economy and public administration was made. Surprisingly enough, bold reforming efforts of Mr. Ion Sturza's Government resulted in some significant improvements in the fiscal stance and the overall economic performance in the second half of the year. However, this only degenerated into a full-scale political, financial and economic crisis towards the end of the year, leading to a dark and uncertain future. A year, which began with crisis in the government, ended also in vain, only under much worse political circumstances.

Prime Minister Ion Ciubuc's resignation on the 1st of February 1999 unleashed a very deep and protracted crisis. Since his nomination as Prime Minister in February 1997 and, for the second term, in April 1998 (after Parliamentary elections in March 1998) he had been always considered as "the President's man". The Alliance for Democracy and Reforms, a parliamentary coalition formed after 1998 elections which comprised the Democratic Convention (composed mostly of Ex-President Mr. Mircea Snegur's Party of Rebirth and Reconciliation and the Christian Democratic Popular Front), the Block of Democratic and Prosperous Moldova (Pro Presidential Movement headed by Mr. Dumitru Diacov, Chairman of the Parliament) and Party of the Democratic Forces (with Mr. Valeriu Matei as its leader) never considered Mr. Ion Ciubuc as its representative, but rather a "creation" of Mr. P. Lucinschi. Mr. Ion Ciubuc was accepted by the coalition partners in 1998 due to their inability to put forward a serious common candidate and as the only way to avoid confrontation with the President. But, after having been accepted, Ciubuc came under the fire by his critics who attacked him for incompetence, inconsistencies and subservience to the President.

The Russian financial crisis of August 1998 afflicted a very serious blow to the Moldovan financial system and economy, making Mr. Ion Ciubuc even more vulnerable. Finally, the President himself drifted away from supporting Ciubuc, probably realizing that he had to change him in order to consolidate his own position.

Mr. Ciubuc's resignation surprised no one in the political circles, being already long expected. Nor did his letter of resignation that blamed the "algorithm" (i.e., the quantitative formula of the distribution of responsibilities in the cabinet members agreed upon by the Coalition partners) for the poor performance of his Government. At that moment everybody seemed to believe that the President himself inspired this letter.

Without properly consulting parliamentary majority (procedure envisaged by Art. 82.1 of the Constitution of Moldova), on February 5th, 1998 the President named Mr. Serafim Urecheanu, Lord-mayor of Chişinău, the capital, as Prime Minister. Basically, the same selection formula was used as in the case of Mr. Ion Ciubuc in April 1998: allegedly a "technocrat" (and popular at the time), and a non-political and a non-party figure. The major difference was that Mr. Urecheanu was not "The President's man", but rather his potential rival in the 2000 Presidential elections. There was information that Mr. Lucinschi wanted to destroy Urecheanu politically by making him a scapegoat for the country's difficulties. Probably, the President expected that the Coalition would accept Urecheanu as it did a year ago with regard to Mr. Ciubuc.

That was not to happen, though. A categorical refusal by Urecheanu to accept the principle of "algorithm" and his determination to bring with him his own team from the Lord-Mayor's office, as well as a lack of any economic or other program left no room for any agreement with the Coalition. He withdrew his candidature after a short time.

On the 17th of February, the President attended the Coalition meeting and proposed that it selects its own candidate, whom he promised to designate. This produced new convalesces within the Alliance suffering from internal divisions. The biggest problem lies within the Democratic Convention, an uneasy alliance of Mr. Snegur's Right-right Party and the extreme right wing, overtly pro-Romanian, pro-unification Popular Front with Mr. Iurie Roșca as its leader. Formed after the 1996 Presidential elections during which the Popular Front supported Mr. Snegur's bid for re-election, this alliance began to crumble immediately after the 1998 Parliamentary scrutiny. There were many reasons for this, the most evident being perhaps personal rivalries between Roșca, as the co-chair of the Convention, and Mr. N. Andronic, Snegur's deputy in his Party.

It was Roșca who urged Snegur to accept Diacov's demand to be elected the Speaker of the Parliament as a precondition for forming a coalition with Democratic Convention (in exchange, the Democratic Convention was promised Prime-minister's office). That rivalry was also primarily responsible for the President's success in forcing the Coalition to accept Mr. Ciubuc for the Prime minister's office in April 1998. This time Snegur and Andronic decided to press ahead with Andronic's candidature for Prime-ministership, but Roșca once again refused to follow suit. Angry exchanges between the two fractions of the Democratic Convention led to its breakdown, leaving the Popular Front with 9 seats and Snegur with 17 (the Democratic Convention was then reconstituted under Snegur's leadership). Soon later Roșca proposed to nominate as the Coalition's common candidate to Prime-ministership Mr. Ion Sturza, Vice-Prime-Minister and Minister of the Economy and Reforms in Ciubuc's Government, a leading reformer and a representative of the BDMPM. Although Sturza shortly earlier had been harshly criticized by the Front for advocating an allegedly "anti-social" program of austerity.

This unexpected turn of events produced a kind of euphoria in the political circles and hopes for a new era of long-over-due reforms. This euphoria was to be short-lived, however.

Immediately after this proposal was endorsed by the Coalition (even Snegur's Party eventually succumbed, asking for the First-Deputy-Prime-Ministership for Andronic), the Popular Front began to request a high price for their generous offer to the BDMPM. Essentially, they demanded: a) an exclusion of Andronic from the cabinet; b) two additional ministerial positions - of the Minister of Finance and of the Minister of State. The first was unacceptable, as it would have led to the breakdown of the Coalition, forcing Snegur's Party to leave it. The second was turned down by Prime Minister-designate because he considered (rightly) that the Popular Front had no good candidates for those very important positions.

After some long, exhaustive but unsuccessful negotiations with the Front the Coalition finally endorsed Sturza's Government by a majority of one vote on the 12th of March. This last, 52nd vote (sometime earlier the Constitutional Court had ruled that the majority of all deputies elected - 101 - was 52 and not 51; when in the first attempt to endorse Mr. Ion Sturza's Government 51 votes were cast in favor, and the Constitutional Court said it was unconstitutional) belonged to Mr. Ilie Ilașcu, a deputy from Matei's Party who is a prisoner of the Transnistrian regime since 1992. Certainly, he was voting "by correspondence" which was smuggled out of the prison. The Constitutional Court, having been seized on the constitutionality of the issue, refused to examine it in substance saying it was "an internal matter of the Parliament". Thus the Government was sworn in on the 13th of March 1999. The circumstances under which this took place bode unfavorably for the future of the Government.

Nevertheless, to the surprise of many observers, the Government was succeeding in many respects. In May the exchange rate showed signs of stabilization, the IMF and the World Bank were resuming financing of the country and from June 1999 the economy started to gradually improve. Most of this was due to the bold efforts of the Government to implement the structural reforms agreed upon together with the IMF and the World Bank and voted upon by the Parliament at the end of the 1998. The main features of the reform program were very austere budget, pensions reform, including raising the pension age, and privatization.

Local elections of May 23, 1999 failed to produce any serious change in the balance of political forces in the country. Essentially, all parties confirmed the results of 1998 Parliamentary elections: the Communists came first without increasing their share of votes (approximately 30%), the BDPM the second, the Democratic Convention the third and the Party of Democratic Forces and the Popular Front shared the fourth and the fifth positions. Neither the leftist stubborn opposition of the Communists, nor the populist campaign of “clean hands” of the Frontists, who accused everybody beside themselves of corruption, produced any tangible results. The electorate seemed to endorse the reformist policies of the Coalition.

Unfortunately, around the same time a new point of tension appeared between the President and the Parliament, especially the ruling Coalition. On the 22nd of March the President issued Decree N 930-II calling a consultative referendum to be held on the 23rd of May, the day of local elections. Voters were asked to answer “yes” or “no” to the following question: “Do you support changing the Constitution in order to introduce the presidential system of governance in the Republic of Moldova, where the President will be responsible for forming and leading the government, as well as for the results of governing the country”.

Soon afterwards practically all political parties declared themselves to be against this proposal, and even the pro-presidential BDPM only reluctantly and vaguely appeared in favor. Nevertheless, because the parties were fighting with each other in the local elections, the President had a free hand in using TV time accorded to him without payment (all parties had to pay for their TV time) to make his own case to the public.

In effect, 58.3% of the electorate as a whole participated in the referendum, 55.3% ballots voting in favor, 30.85% against and 13.8% were declared invalid. Given that according to the Article 168.1 of the Electoral Code, when a draft constitutional law is put to referendum, for its approval a majority of 50% of *all registered voters* plus one vote is required, and that on May 23 only about 32.3% of all registered voters voted in favor, this result could hardly be considered an approval of President’s idea of a constitutional reform.

Nevertheless, on June 5th the Central Electoral Commission validated the results of the consultative referendum (according to Article 171 of the Electoral Code, Central Electoral Commission *could* and did not have to declare a referendum invalid when less than three fifths of the whole electorate participate). On June 15th the Constitutional Court confirmed the decision, thus opening the door for further constitutional experiments.

On the 1st of July the President signed Decree N 1070-II forming a National Commission and instructing it to elaborate, within a month, a draft law on the modification of the Constitution for establishing a presidential system of government. The Decree envisaged that the draft would be sent for opinions to the national and international institutions and that, having received those opinions, the Commission would finalize the draft within a period of 15 days, taking into consideration proposals contained in those opinions as well as those to be presented in public debates. This would then be forwarded to the President in view of establishing a procedure to adopt a law, in accordance with the Constitution and the Electoral Code.

In order to implement this instruction, the National Commission prepared and published in early August a draft law on the modification of the Constitution. This draft effectively subordinated the Government to the President, making him the head of the High Judicial Council and ultimately the “supervisor” of the courts and Prosecutors. The role of the Parliament was to be severely curtailed, effectively bringing it under the control of the Executive Body.

This draft law provoked furious reaction, and even the previously pro-presidential BDPM of Diacov strongly criticized it. So the rupture appeared between this formation and the President, and the conflict between the Presidency and the Legislature, which started with calling of a consultative referendum by the President, intensified.

On the 6th of August this draft was sent for examination to the Venice Commission – an independent body of legal experts working under the Council of Europe (President Lucinschi

promised to collaborate with the Venice Commission while on an official visit to Strasbourg in June). The preliminary draft opinion of the Commission was prepared already in September, and it was unsurprisingly negative. For fear of undesirable publicity, the National Commission started to revise some of its proposals hoping to obtain a favorable opinion of the Venice Commission. However, this was not to be the case.

The Venice Commission was ceased by the Parliamentary Assembly of the Council of Europe on the same issue, and given that its preliminary opinions were strongly negative, the moods of the Assembly began to move strongly against the constitutional reform in Moldova as envisaged by the President. During the Monitoring Committee's reporters visit to Moldova in the early November, this negative assessment was conveyed straightforwardly to President Lucinschi, as well as in the less cutting but clear enough form, to the general public.

In the course of its meeting on November 15th, the Monitoring Committee approved "the information note on the visit of the Reporters to Moldova (2-3 November, 1999)" (AS/Mon (1999) 29). In this document, a reference was made to the work of the Venice Commission on Moldovan constitutional problems which stressed that the draft of the National Commission *"still includes a number of elements which are not compatible with the principle of the separation of powers and which thus do not allow the conclusion to be reached that the draft is compatible with European democratic standards."*

It should be added, in this context, that the National Commission turned down the proposal of the Venice Commission to mediate between it and the Moldovan Parliament claiming that a compromise formula was fined that would permit consolidating the Executive's competencies and political stability within the framework of European democratic standards.

Meanwhile, on November 3rd, the Moldovan Constitutional Court, having examined the Moldovan Constitution in part referring to the proper procedure to follow in case of constitutional revision (on the request of the two deputies from the governing Coalition), ruled that it is only the Parliament, which has the right to change the Constitution. This could be done in two ways, either by voting in favor by a two-thirds majority after the presentation of a draft upon the expiration of 6-month period together with the Opinion of the Constitutional Court, or by calling a constitutional referendum following the same procedure.

This historical decision of the Constitutional Court severely curtailed the possibility for President Lucinschi to implement any constitutional reform as envisaged by him. Nevertheless he made it clear that he would press ahead with this idea and "ask" the Parliament to call such a referendum. To this end he organized a campaign of collecting signatures all over the country under the petition to be presented to the Parliament requesting to hold such a referendum – even before the draft was published and the opinion of the Constitutional Court obtained! A new party "Republica" is being organized to support this action.

Since Lucinschi realized that he had become politically isolated, he decided to change allies and try to fragment and discredit his political opponents. His main tool in this respect was General Alexei, head of the Department for Fighting Corruption and Organized Crime within the Ministry of the Interior. This Department was set up by Lucinschi immediately after having been elected the President. Initially it was established under the President himself, but the Constitutional Court ruled it as unconstitutional. Following this decision the Department functioned within the Ministry of the Interior.

On balance, General Alexei proved to be very inefficient in fighting corruption and organized crime, but quite effective in discrediting the President's opponents. Almost all the files prepared and brought by him to the Prosecutor's Office and to the Courts failed, but he never ceased to publicly denounce Lucinschi's opponents of being linked to the Mafia. Though unable to produce any sound evidence and constantly losing in the courts on charges of defamation, he managed to seriously damage the reputation of Valeriu Matei, the leader of the Party of Democratic Forces, who was finally dismissed from his position as a deputy speaker of the

Parliament. It goes without saying that both the Popular Front and the Communists were applauding Alexei's actions.

Since the General presented a serious threat to normal functioning of public institutions and to ruling Coalition, in the early September the Ministry of the Interior's Board finally dismissed him from his position on the grounds of abuse of power and fraud (many cases of this kind were demonstrated).

The President took the side of General Alexei accusing the Ministry of obstructing the fight against corruption. This made the whole situation even more tense. Since then the President began to use Russian mass-media (TV and papers published in Russia which are still popular and influential in Moldova, but which are known to be corrupt and unscrupulous) to discredit his political opponents accusing them of links to the Mafia.

Until the end of its summer session, however, the Parliament, though with some difficulties, supported Sturza Government's measures, which allowed the country to move forward on the road of reforms and thereby to regularly receive external financing on better-than-market terms. Since September it was getting clearer that the Coalition was losing a majority necessary to support the Government. The most urgent measures needed to be approved by the Parliament were those of privatizing the wine factories, tobacco industry, amending the 1999 budget, and approving the 2000 budget. The Communists, the Frontists and the President were blocking those measures thus forcing the Government to resign.

On the 4th of November Prime-Minister Sturza presented in Parliament his program of policy measures necessary to overcome the crisis and ensure economic development of the country. He presented the achievements of his Government, outlined future developments and options and underlined the risks connected with letting the Government down at that particular stage. At the end of his speech he added: "I will not participate in the coup d'état".

Immediately after this sitting the Communists and the Frontists began to collect signatures for the motion of censure. On the next day, November 5th, 1999, President Lucinschi summoned the Communists to his office and urged them to go forward with this motion. It was presented the same day. During the press conference held on the 8th of November, on the eve of the voting of the motion of censure, President Lucinschi said he would have voted against the Government had he been a deputy, citing as a reason "neglect of the real sector" (an allusion to the fact that the Government stopped interfering with day-to-day activity of the state-owned enterprises).

On the 9th of November, upon the expiration of a 3-day period following the presentation of a motion of censure required by the Constitution, Ion Sturza's Government was dismissed by a vote of 58 deputies out of 101. Voting in favor of the motion of censure were the Communists, the Frontists and the so-called "independents" who defected from the parties of the Coalition.

Immediately afterwards, a new majority was announced – that of the Communists, the Frontists and independents. It is hard to see how this impossible coalition of extreme right and extreme left could work together, given complete incompatibility of their programmes and ideologies. Nevertheless, the President was optimistic about forming a new government "within a week". On the 11th of November the President designated Mr. Valeriu Bobuțac, the Moldovan Ambassador to Moscow, as Prime Minister, instructing him to form a government.

Bobuțac was a Minister of Trade in Druc's and in Muravschi's Governments (1990 – 1992), as well as Minister of the Economy in Sangheli's Government (1994-1996). He could hardly be seen as a convinced reformer and a "new blood".

On the 22nd of November Bobuțac's Government and its programme were put to vote in the Parliament, but failed to collect the necessary number of votes (48 out of 101 deputies voted in favor). This result was due to the Popular Front's last minute defection from supporting this

government, once more citing “suspicions” that some of the Ministers proposed “might be” corrupt.

On the 2nd of December Mr. P. Lucinschi designated Mr. V. Voronin, First Secretary of the Party of Communists as Prime-minister candidate. But he also failed to succeed, receiving only 48 votes on December 7.

At the moment this text is being written it is not at all clear whether the new government will be formed or the country is heading for an early parliamentary elections during winter, and under extremely unfavorable circumstances. But what can be ascertained without doubt is that the immediate future is bleak. The IMF and the World Bank have already announced the suspension of their disbursements to Moldova, investors are fleeing the country (e.g., those who only recently announced their interest in buying Moldovan electricity distributors), confidence is diminishing and prices soaring. External financing is crucial for the survival of the country, but the IMF and the World Bank made it clear that they would not resume it until the new government established its own “track record” which will have to be long enough. The budget for the next year will have to be revised in order to make it more commensurate with diminishing resources.

Ion Sturza’s Government was probably the only government since Moldova’s independence that sincerely and vigorously promoted genuine market reforms and implemented a pro-European strategy. To the surprise of many, it achieved some positive and concrete results.

Among other it demonstrates that genuine market reforms could bring in Moldova concrete improvement in standards of living of both urban and rural population in a relatively short period of time. At the same time it created, one may hope, some powerful momentum for democratic and reformist forces in the near future.

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The crisis of governance comes from a continues lack of capacity within the state structures, which were formed on the basis of constitutional norms in order to meet the citizen's expectations and to restore their lost confidence in a participatory procedure for problem solving through elections.

The year 1989 can be considered as a starting year of the irreversible changes in the society, which transformed the Soviet Socialist Republic of Moldova (SSRM) into an independent state. Ten years on, the contrasts between the expectations and the reality is becoming increasingly obvious. Economic crisis is most frequently mentioned. Meanwhile, holding frequent periodic elections, parliamentary and presidential, has not produced much positive results in between. The words "The road to hell is paved with good intentions" perfectly describe the cycles of the political life in Moldova. Since 1994 the society has gone through non-stop elections characterized by violent political confrontations. Change of Governments takes place more and more frequently. Under such circumstances, the government crisis in itself becomes an issue. A 10-year period is sufficient for running an analysis of the political, economic and social processes, with a reduced risk of confusing the short-term changes with general tendencies.

Let's start from the very beginning.

The first experience of democracy

The Soviet Union even after 70 years of existence did not constitute a homogeneous entity. One could presume that the fifteen former union republics could be ranked in a descending "chain" regarding their degree of readiness to become independent states and the ability to self-govern through mechanisms of jural state. The Soviet Socialist Republic of Moldova could be ranked somewhere in the middle of the chain.

The Baltic States were the first to give birth to popular fronts, which consciously placed themselves in opposition to both the republican level bodies of CPSU and the Communist ideology as a whole, and started to exploit each moment of Moscow's central power weakness to enhance their degree of independence. The new political forces in the Baltic States were the first that acknowledged the importance of the economic aspect for political independence and launched the idea of economic self-financing. The intellectual potential of the society, having overcome the level of linguistic problems, focused on the whole set of problems related to statehood restoration, under the extremely hard conditions of Soviet Union disintegration. Notably, the Baltic States avoided most of the problems that Moldova is facing today. In the period of provocations and separatism supported from abroad, this threat was avoided. The economic reforms were fruitful not only for corrupt office holders, but also for society as a whole. The Baltic States are regarded as real candidates for full membership of the EU and NATO.

Although the SSRM reached the composition of Soviet Union on a scenario similar to that of the Baltic States, the attitude towards the USSR, communist ideology, historical background, and the vision on the future, amongst the population was totally different. In Moldovan society the post-1985 political processes ran mostly by way of mechanical imitation of those from the Baltic States. First of all, in Moldova there is no massive and conscious support of the state independence idea. The population was very heterogeneous with regard to their attitude towards

O. Nantoi - politologist, Chairman of the Social-Democratic Party of Moldova, in opposition with the authorities since mid-eighties

historical background relating to Basarabia's in Romania the Molotov-Ribbentrop pact, etc. In the industrial centers on the left bank of the River Nistru the attitude towards the perspective of Moldova's transformation into an independent state was even aggressive. The main new political force, the Popular Front of Moldova, from the very beginning did not show the necessary qualities to become a driving force of the SSRM's transformation into an independent state and consciously, did not target such an objective. It was characterized by a simplistic approach to problems pertaining to "national renaissance", which in its turn was reduced only to linguistic aspects. In the summer of 1989 the republican organization of CPSU lost any initiative and was in an obvious deadlock. The Popular Front proved to be incapable to definitely take over the political initiative and at one of the rallies, the appeal was launched to Michael Gorbachov that in lieu of a "bad communist", the first-secretary Semion Grossu, to assign Petru Lucinschi as a "good communist". Later, a particularly ill-fated role for the political evolutions in Moldova was the populist approach on behalf of the Popular Front partisans, with the idea of political unification of Moldova with Romania. This indeed contributed only to enhancing the separatism manifestations in the Southern and Eastern parts of Moldova, to worsening the social splitting-up based on ethnical criteria and prepared the grounds for subsequent political revenge of the political forces and individuals from the Communist Party (1992-1998). The leaders of the Popular Front, unable to acknowledge the importance of the economic aspect, did not involve economists in this political formation's activity. The participation of the economists could have offered some practical solutions to the complex problems of moving to a market economy, while consolidating the economic foundations of the new state.

The first democratic elections of deputies during February-March 1990 to the Supreme Soviet (later Parliament) of the SSRM and the events that followed afterwards proved that the Moldovan society was just starting to assimilate, "on the move", some elementary notions of democracy. The initial 380 mandates at the Supreme Soviet were distributed as follows - only one third of them were attained by the Popular Front. The other two thirds of Parliament mandates were attained by agricultural enterprise managers (kolkhozes and sovkhozes) and "Russian-speaking" deputies, elected basically in the industrial centers of Moldova. 64 deputies represented the circumscriptions from Bender and from the left bank of the river Nistru.

Only at the first phase of this legal body's activity there was a clear majority of about two thirds formed, albeit on ethnical grounds. As long as the "sovereignization" euphoria lasted there were there were votes in favor of the Declaration on sovereignty, dated 23 June 1990, the symbol of the new state and the first government headed by Mircea Druc. However, just after this "emotional-national" phase was over, the Parliament entered a continuous process of splitting-ups and regroupings. This process was conditioned by the corporate interests of some deputies, their different attitude towards the USSR dismantling process, involvement of some more deputies in setting up new parties, etc. Despite that, the mandate of the Parliament expired in 1995, noting that by the fall of 1993 it had already split into 8 deputy "clubs". With almost half of them did not participate in sessions, the legislature of the country that was vested by people's expectations became totally paralyzed. Only under the impact of the political events in Moscow, from October 1993 (i.e. the forced dissolution of the Supreme Soviet by Boris Yeltsin), were the deputies able to vote in the Law on elections to the Parliament and fix the date of anticipated elections on 27 February 1994.

It is necessary to mention, that the change of forces' correlation in that Parliament during the mandate commenced a "tradition" of Governments' sacrificing. The first Government headed by Mircea Druc "fell" as early as in 1991. His successor, Valeriu Muravschi left in 1992 after a political crisis provoked by the tragic dénouement of the armed conflict in Transnistria. Under the pressure of the deputy club "Viața Satului" (Rural Life), the President of Moldova Mircea Snegur proposed Andrei Sangheli to the office of prime-minister, a person who in no

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way complied with the “revolutionary” slogans of 1988-89. At the same time, Andrei Sangheli’s assignment as prime-minister symbolized a loss of all the positions held by the Popular Front and the return of the Communist Party under “agrarians” trade mark.

The first government and the first programme of economic reform

“The hard way of transition to market economy is assumed to be through in a shortest period of time, of approximately 1.5-2 years” – this was a citation from the “Transition programme to market economy in the SSR of Moldova”, approved in 1990 by the Supreme Soviet of Moldova. The transition to market economy was supposed to be followed at four stages, the last one envisioned to include the “conclusion of stabilization period”. Today, with hindsight, it is obvious that the programme was unrealizable. First of all it contained a fundamental political-economic ambiguity – the intention was announced of implementing radical economic reforms on a territory which constituted a small part of a unified, single state – ex-USSR. At the same time, at the Supreme Soviet a conscious and firm support of the economic reforms, as well and of the “sovereignization” of Moldova were missing. The first attempts to go from words to actions proved that they were first of all contradictory to the corporate interests of the “agrarian” deputies. After breaking-up the “national” majority they constituted the deputy club “Viața Satului”. Afterwards, the banning the activity of the Communist Party in August 1991 lead to the idea of setting up, in October 1991, the Democratic Agrarian Party of Moldova, as a political instrument for protecting its corporate interests.

In its turn, the Government headed by Mircea Druc, representative of the Popular Front at the time, admitted a series of hard political mistakes, which produced further tensions in the Southern and Eastern parts of the Republic of Moldova. Separatist manifestations went totally beyond the control of the central power in Chișinău and gave one more reason for destabilization of the political situation in the country and for missing the fragile chances to consolidate the society with a view to settle the economic problems. Thus, the Government too lost the chances to promote economic reforms. Which could have offered unique experiences in gaining competence.

Consequently, the first Programme of national economic reforms remained merely a declaration of intention.

Institution of parliamentarism and multi-party system in Moldova – 1989-1999

In conformity with the Constitution of the Republic of Moldova, adopted in 1994, the Parliament is vested with enormous authorities (Article 66). Starting from 1994 the parliament elections ran based on proportional party lists. Thus the political parties have an extremely important role in the political life of Moldova, and their “quality” decisively affects the direction and trend of the processes running in the society. Starting from 1989 Moldova has been going through a difficult but natural process of building-up the political spectrum. During these years the constitution of more than 50 parties has been announced. In most cases they did not have as basis of their activities any clear doctrines. Splitting-ups, personal ambitions, their ranks completion based on personal fidelity towards their “leader” became soon became a tradition for this process. The experience of 1990-98 elections shows that so far the political spectrum is dominated by a group of secluded individuals, who after having changed many other parties during those years almost monopolize the right to be present in the parliament. The electoral campaigns are financed by cash, the poll of 1998 practically put into practice the merchandising of the places on the candidates’ lists. Thus, the electoral campaign becomes a phase of an unavoidable corruption of power. The behavior of the elected MPs on the lists of those parties is

often unpredictable as compared to electoral campaigns. Under the conditions of an eventual conflict of interests, the position of deputies becomes a subject of bargaining, while factional splits, particularly of the governing majority, has become a chronic ailment. The electoral message usually is reduced to populist promises. This particularly refers to the extremes of the political spectrum; Popular Front and Communist Party. For instance, until 1996 the Status of the Popular Front comprised the following stipulations:

- The fundamental purpose of the Christian-Democratic Popular Front Movement is to contribute to the liberation of occupied Romanian territories and to the reintegration of Romania as an Unified National State.

Significantly, both the idea of unification with Romania and that of constructing Communism after elections were declared by the leaders of respective political formations as “dreams”. In reality they constitute some electoral baits for the respective segments of electors.

In the activity of the parliaments elected in 1990, 1994 and 1998 some common traits can be traced. None of them have had a stable correlation of forces during the mandate period. As mentioned above, in the Parliament elected in 1990, after the “national-emotional” phase was over, the majority disappeared, which might be charged for a political responsibility. In the following Parliament, elected in 1994, the Agrarian Democratic Party (ADPM) had an obvious majority (56 mandates of 104 places). Yet, it did not necessarily mean a stable governance over the four years of its electorate platform. The explanation is simple – before elections this party already had the image of “the party in power”. Consequently the ADPM’s candidates list comprised people whose common purpose was not their “agrarianism”, but rather their desire to become deputies. ADPM was set as the “carrier” to the Parliament. Thus, once their seats were replaced, their unique consolidating factor vanished. Since 1996, the Presidential elections started to play a decisive role in destroying the Parliament majority and ADPM as a whole. Mircea Snegur, Petru Lucinschi, and Andrei Sangheli, having profited by their positions, and Vladimir Voronin – by the Communist nostalgia among the “Agrarians”, tore up the parliamentary faction of that party.

Just after the Presidential elections on December 1, 1996 the Government headed by Andrei Sangheli retired and the same parliament voted in favor of forming the Government headed by Ion Ciubuc (Ciubuc-1). Replacing the prime-minister and modifications in the Government composition did not mean a new way of reform promotion, - the Parliament, elected in 1994 lost its quality of representative of the Moldovan citizens’ interests and of political supporter to activities targeted towards reaching electoral promises. The newly elected President of Moldova – Petru Lucinschi, took over the political initiative. Yet, notably, neither Mircea Snegur in 1991, nor Petru Lucinschi in 1996, were backed by consolidated and competent teams. These might have been capable to take over the executive power of the “steering-wheel”, based on their electoral platforms and political capital as the freely elected head of state. Thus, the quality of the elected Parliament in 1994 did not provide for its survival in the political battles of 1996. Moldova was left with a paralyzed Parliament and although the Government changed, it did not entail any positive changes for the society.

Nevertheless, the method of deputies’ election to the Parliament on party based lists engendered the first effect to the following elections of 23rd March 1998 when the Moldovan electorate cruelly punished the *name* of Agrarian Democratic Party (a good number of those on the “Agrarians” list in 1994, had become deputies to the “new” parties in 1998). ADPM did not even pass the threshold of 4% (gaining only 3.6%) and thus disappeared from the political arena altogether. In Moldova a precedent was created, when politicians for the first time perceived the notion of *political responsibility*.

The Parliament formed after the elections of 23rd March 1998, were essentially distinguished from previous one in terms of balance of forces. First of all, no electoral competitor succeeded to attain an absolute majority in the Parliament. The Communist Party holding 30% of votes ranked first and won 40 seats, which was insufficient to form a “mono-color” government. The “right-wing” political formations did not receive the necessary number of seats for governing either. After the negotiations the formation was declared of the Alliance for Democracy and Reforms (ADR) based on joint “anti-communism” forces of the component parts and formed the coalition Government headed again by Ion Ciubuc (Ciubuc-2). A particular role in forming the coalition was played by the “Centrists” – the Block for a Democratic and Prosperous Moldova (BDPM) headed by Dumitru Diacov (24 seats). This block was formed by consolidating a political formation, which in 1996 acted in favor of electoral success of Petru Lucinschi, comprised of rather amorphous political formations. The sole electoral slogan of BDPM was as follows: “We are Lucinschi’s team! “Notably, Ion Ciubuc’s candidacy for the position of Prime minister at that time was convenient to both the President and BDPM.

The situation changed in February 1999, when Ion Ciubuc retired after failing to run the coalition government, while Petru Lucinschi did not manage to promote another candidate. After the first unsuccessful attempt of the President to assign Serafim Urecheanu as the sole candidate with real chances, Ion Sturza emerged (in Ciubuc-2 cabinet he was Vice-prime Minister, Minister of Economy and Reforms). Thus, the Parliament majority (ADR) took over the political initiative in the country. Formation of the cabinet headed by Ion Sturza was complicated due to the withdrawal of CDPF (with nine seats) from the ADR. This step by the CDPF, regardless of the invoked reasons, reduced Ion Sturza cabinet’s support to the minimum, and hence created the premises for the subsequent political destabilization in Moldova.

Destabilization also followed within a short while after Petru Lucinschi launched the idea to modify the Constitution and transform Moldova into a presidential republic. As such, the president started *de facto* a struggle for the second mandate of presidency. However, no political formation in the Parliament, including the BDPM, supported this initiative. At the same time, Ion Sturza’s Government step by step advanced in de-blocking the financial crisis and instituting the elementary order in public funds management, energy sector, etc. Pension and salary arrears started to shrink; the Government submitted the concept of 2000 budget, which stipulated a modest increase of salaries for the budget sphere employees. Running an independent policy, as compared to that of the President of the country, created some positive expectations of Ion Sturza’s cabinet, which proved to be troublesome for the President’s perspectives of the elections in 2000. Given the political conflict, the political erosion of ADR sharpened, starting with BDPM.

A new group of “independent” deputies emerged, followed by the motion of censure on 8 November 1999, based on which the Ion Sturza’s cabinet was dismissed by 58 votes, after less than 7 months of activity. The votes for the cabinet dismissal came from the representatives of the Communist Party of Moldova (40 votes), CDPM (9), and the “Independents” (9).

Subsequently, in the current parliament the majority of deputies served only half of their terms of office. The conflict of interests, which categorically contradicts the interests of the population, brought political stability to an end, together with the chances to overcome the economic crisis. After ten years of “democracy” and “reforms” on December 1, 1999 Petru Lucinschi, through Presidential Decree, assigned Vladimir Voronin, the first secretary of the Central Committee of the Communists’ Party of Moldova (CPM), as candidate for the position of Prime minister. The status of the Communists’ Party of Moldova, *inter alia*, contains the following stipulations:

- It is the successor of the ideas and traditions of the Communist Party of Moldova, which ran its activity until 1991;
- It stands for creating, based on new principles, of the brotherly Union of the CIS nations and for international solidarity with Communist Parties in other countries;
- In developing the policy and principles of practical activities of the CPM, it is guided by Leninist-Marxist theory, taking into account its evaluation and completion with current achievements of contemporary science and experience of international communist and workers' movements.

The president asked the new candidate to ensure a continuation of the reform process for integration into Europe. In other words, the Communist Prime minister is supposed to realize the programme of the former Cabinet, severely criticized and dismissed by the Communist deputies.

Nowadays there is no guarantee that Vladimir Voronin will manage to have needed support in the Parliament to be able form a new Cabinet. In any case even if the preliminary elections are not carried out in the spring of 2000, the political stability, and with it, any other chances to surpass the economic crisis in Moldova, are sacrificed for the sake of power struggle.

The Transnistrian conflict

Armed confrontations in the Eastern rayons of the Republic of Moldova ceased in July 1992. Nonetheless, this problem remains at the edge of the public attention. The Transnistrian conflict requires due attention, given its extremely negative impact on Moldova in the past ten years. The conflict was unleashed due to ideological reasons, an outcome of many factors, in the main provoked by the USSR disintegration, lack of political elite in Moldova which might be capable to consolidate the society and annihilate the separatism manifestations, separatism support from abroad and the presence and direct involvement of the 14th Army troops.

Negotiations with regard to the legal status of the localities from the left bank have been going on for many years, yet they are in an obvious deadlock as the perspective of addressing the conflict remains unclear. Instead, the undefined legal status of this zone, missing economic borders with Chişinău alongside the river Nistru, immediately started to be exploited for tax evasion, smuggling, etc. It is obvious that passivity and inconsistency of Chişinău officials concerning Transnistrian separatism can be explained, in line with domestic political confrontations, only by the existence of an influent *lobby* of Tiraspol comprising corrupt individuals of the state structures. During the negotiations process Tiraspol attained from the Moldovan authorities a series of unilateral concessions in the economic field. As far back as on 7 February 1996 the administration from Tiraspol obtained from Moldova the customs seal with the inscription: "Republic of Moldova. Tiraspol Customs". The economic agents from Transnistria, regardless of the fact that they make no contribution to the Moldovan budget, benefit from all possibilities for running economic activities abroad, offered by the Moldovan state. The state structures of the Republic of Moldova generously offer all the necessary provisions for that. At the same time, the most unpretentious calculations show that in 1998 alone, the volume of smuggled goods subject to excise duties in Moldova through Transnistria amounted to over US\$ 500 million. The losses incurred by the state budget entailed by tax evasion and flows of contraband with Transnistrian involvement are comparable to the aggregate technical assistance received by the state of Moldova from International Financial Organizations. The economic crime rates, with the involvement of the Transnistrian zone, are a real threat for the statehood of Moldova and provoke a massive corruption of the state structures. One could remark that the Transnistrian conflict does not exist any longer in reality,

but both “the Dniestr Moldavian republic”, and the negotiations process are a political coverage of the mechanism of enriching a certain circle of individuals on the both banks of the river Nistru through economic crimes.

The Demos

There are a lot of definitions of the notion of *democracy*. Anyway, this means formation of due structures of a jural state, through regulated citizens’ participation, free and fair elections. From a formal viewpoint, the Moldovan state possesses all requisites of democracy necessary for society’s self-government, deriving from the interests of the citizens’ majority. At the same time, the continuous aggravation is obvious of social-economic position, crime breakout, corruption, etc. According to some estimates, about 300 thousand Moldovans left for abroad in search of means for survival. The natural question emerges - why?

The irreversible changes that emerged after 1989 meant the destruction of the whole social structure of all the “rules of game” from the Soviet system. During the first wave of changes the most active part of the population sincerely supported the slogans: “democracy”, “market economy”, “sovereignty”. However, those notions were compromised by the first promotion of “democrats”. Most of the population did not attain any positive results. At the same time, it turned out that many citizens, either psychologically, or professionally, are not ready to comply with new conditions. This was particularly perceived in rural areas. According to the 1989 census, 53% of the population lived in the countryside, running their activities within “kolkhozes” and “sovkhozes”. During the electoral poll of 27 February 1994, over 820 thousand voters voted for the Agrarian Democratic Party of Moldova just due to the fact that the electoral message of that party responded to voters’ nostalgic expectations. Another nostalgic political force, for the “Russian-speaking” population - the Internationalist Movement “Unitatea-Edinstvo” - obtained 28 seats. The Patriotic Democrats gained only 20 out of 104 seats.

The conclusion is the one already derived long ago, - the “quality” of the political elite of any society is in close correlation with the “quality” of the society itself as such. The formal application of democratic mechanisms *per se* does not guarantee the progress of the society. The sociologists operate with such notions as *political culture*, *civic culture*, etc. The behavior of Moldovan society perfectly matches the inferior, *parish*, level of political culture. State citizens’ inability to consolidate for the purpose of protecting their personal interests, including through protest manifestations, is the most convincing symptom in this regard. The apathy and lack of citizens’ confidence in the mechanisms of democracy and jural state has now reached dangerous proportions. The “feed-back” mechanism between the *citizen* and *power* is deregulated and runs erroneously. In the past ten years the Moldovan society has not managed to form, through elections, a continuous political coverage of social reformations. The prevailing economic and governance crisis, immorality, corruption and inability in power structures are only a consequence of this state of affairs.

There are no rapid and simple solutions. This is obvious from the comparative growth of the qualitative level of Parliaments in 1990, 1994 and 1998. But both the competence level, as well as particularly the level of responsibility before the society are much below the requirements imposed by the aggravation of the situation.

Only the anticipated parliamentary elections may offer a chance, but without any guarantees. In case the electors correctly appreciate the current “political actors”, Moldova might obtain a more responsible and consolidated majority in the Parliament and a more efficient Government. Otherwise they will take one more step towards total collapse.

Vladimir Voronin's failure to form a new Government, on 7 December, complicated the situation even more. The balance of forces established in the Parliament does not allow to either form a Government headed by a Prime minister who might represent a parliamentary faction, or a Prime minister as a person entrusted by the President. According to Article 85 of the Constitution, the President obtained the formal right to dissolve the Parliament after 45 days from the first attempt (November 22). Nevertheless, on 10 December it was supposed to name a third candidate – Ion Casian, ex-Minister of Telecommunications in the Governments 1992-1998. But at the last moment, Ion Casian laid down conditions to deputies in the form of guaranteed support for the Government composition as determined by him personally, and the non-involvement of the Parliamentary parties in the procedure of forming the Government, etc. So far the reaction of the parties to these conditions is not known. At the same time, it is not clear to what extent Petru Lucinschi will succeed in promoting his candidates in the composition of the new Government. The next candidate to Prime minister's position was announced on 16 December – Dumitru Braghiș.

Thus, the Republic of Moldova has shown in '90s a tight and not always positive link between the political and economic components of the transition...

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