

MOLDOVA



Polity: Parliamentary democracy

Economy: Capitalist-statist

Population: 4,300,000

GNI per capita at PPP \$ (2000): 2,230

Capital: Chisinau

Ethnic Groups: Moldovan/Romanian (65 percent), Ukrainian (14 percent), Russian (13 percent), other (8 percent)

Size of private sector as % of GDP (mid-2001): 50

The scores and ratings for this country reflect the consensus of Freedom House, its academic advisors, and the author of this report. The opinions expressed in this report are those of the author.

↓↓ and ↑↑ indicate score changes of .25 or more. ↓ and ↑ indicate changes of less than .25.

NATIONS IN TRANSIT SCORES

| | 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|-------------------------|------|--------|-----------|--------|---------|
| Democratization | 3.90 | ↓ 4.00 | ↑ 3.88 | ↓ 3.94 | ↓↓ 4.19 |
| Rule of Law | na | na | 5.00 | 5.00 | ↓ 5.13 |
| Economic Liberalization | 4.00 | ↓ 4.17 | ↑ 4.00 | 4.00 | ↓↓ 4.25 |

KEY ANNUAL INDICATORS

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|-------|---------|---------|---------|-------|-------|-------|
| GDP per capita (\$) | 386.7 | 442.9 | 507.1 | 448.6 | 304.5 | 327.5 | 374.0 |
| Real GDP growth (% change) | -1.4 | -7.8 | 1.3 | -6.5 | -4.4 | 1.9 | 5.0 |
| Inflation rate | 30.2 | 23.5 | 11.8 | 7.7 | 39.3 | 31.3 | 11.1 |
| Exports (\$ millions) | 739.0 | 823.0 | 890.0 | 644.0 | 469.0 | 495.0 | 571.0 |
| Imports (\$ millions) | 809.0 | 1,083.0 | 1,237.0 | 1,032.0 | 597.0 | 763.0 | 822.0 |
| Foreign Direct Investment (\$ millions) | 73.0 | 23.0 | 71.0 | 88.0 | 34.0 | 100.0 | 60.0 |
| Unemployment rate | 1.4 | 1.8 | 1.5 | 1.9 | 2.3 | 2.1 | na |
| Life Expectancy (years) | 65.7 | 66.6 | 66.5 | 66.5 | 67.8 | 67.8 | 68.0 |

INTRODUCTION

After ten years of independence, the Republic of Moldova is still searching for its identity and feeling unsure of its fate. The country has faced difficult challenges in transforming itself from a Soviet republic to an independent nation. It was one of the first Soviet republics to have a strong independence movement between 1988 and 1990, but failed to keep up the momentum in its first years of independence. Like the Baltic republics, Moldova was occupied by the Soviet Army in 1940 following the German-Soviet Molotov-Ribbentrop Pact. But unlike the Baltic states, Moldova was not independent between the two world wars; instead, it was part of Romania. More importantly, Western countries were slow to provide strong support for Moldova in the early days of independence. Most of the leaders of independent Moldova were so-called reformists from the Communist Party who lacked the vision or will to build a strong, independent state not oriented toward Russia.

Moldova first drew Western media attention during a short internal conflict in 1992, provoked by ethnic-Russian separatist leaders in an area of eastern Moldova known as Transnistria. In the summer of 1992, separatists backed by the Russian Army overcame the central government's poorly equipped forces in the region. Later, in the mid-1990s, international institutions and donor countries called Moldova a model for other former Soviet republics, especially in land privatization. But the triumph did not last long. By the end of the 1990s, Moldova had been labeled "Europe's poorest country" and was viewed as a source of illegal immigrants, including women trafficked by criminal gangs for sex slavery.

The second major wave of international press stories about Moldova related to the February 2001 parliamentary elections. The Communist Party's landslide victory was a surprise not only for the international community but also for the Communists themselves. They won 71 seats in the 101-seat Parliament. Moldova became the first post-Communist country in which the Communist Party controls both the legislative and executive branches.

During its first decade of independence, Moldova became a democracy with free and fair multiparty elections at the national and local levels. Moldova is the only country in the Commonwealth of Independent States to have a parliamentary rather than a presidential system of government. A 2000 amendment to the Constitution enables the legislature to elect the president and approve the head of government and its members. Because of this change, in 2001 the Communist Party was able to win political power. Although citizens had learned to carry out their civic duties, participated in mass privatization, and handled tough challenges during the transition, the majority considered the economic outcome to be worse than expected—a situation that ultimately led to the Communist victory.

Thus, Moldova's geographic and geopolitical positions and history have been major factors in shaping the country's behavior. Yet despite the hardships caused by civil conflict, limited energy and mineral resources, and foreign economic and political pressure, Moldova has ranked high in Freedom House's annual ratings in comparison to other Soviet republics, save for the Baltic states.

Resistance by two ethnic minorities to central rule has been a significant political challenge. The first and strongest group is the ethnic Russian community in the breakaway Transnistria region on the eastern bank of the Nistru River. The second is the 150,000-strong Gagauz community, a Christian Turkish group, located in a small region by the city Comrat in southern Moldova. In 1994, the Moldovan Parliament granted to the Gagauz minority an administrative territorial unit named Gagauzia. This provided the Gagauz with significant cultural and economic autonomy from the central government. Transnistria remains an unresolved problem for the Moldovan leadership despite many years of negotiations between Chisinau and Tiraspol authorities. The international community's involvement through the OSCE, along with Russia and Ukraine's role as mediators, is important for Moldova's efforts to end the crisis.

The OSCE is playing a crucial role in monitoring the withdrawal of Russian ammunition and troops from Transnistria. At a November 1999 OSCE summit, Russia pledged to remove its military arsenal from eastern Moldova by 2001—in compliance with the provisions of the Treaty on Conventional Armed Forces in Europe—and to withdraw its troops by 2002, unconditionally and under international observation. By the end of 2001, Russia had met its first commitment. However, Moscow is still able to revert to its old position that the evacuation of its troops from Moldova is conditional upon settling the Transnistria problem. Such linkage, dubbed "synchronization," gives Transnistria veto power over any decision and enables Russia, as a mediator with troops, to manipulate the negotiating process into a permanent deadlock. With foreign troops on its territory and a breakaway republic resisting central rule, Moldova has found it impossible to become a fully independent country.

DEMOCRATIZATION

Political Process

| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|------|------|-----------|------|------|
| 3.25 | 3.50 | 3.25 | 3.25 | 3.50 |

Political developments in Moldova during the period covered by this report had dramatic consequences for the country. A prolonged struggle between President Petru Lucinschi and Parliament over Moldova's form of government ended when Parliament, fearing Lucinschi's intent

to transform Moldova into a presidential republic, amended the Constitution on July 5, 2000, to change the way the president is elected. Under the change, the president is elected by Parliament rather than through a direct vote. The divided Parliament, however, could not reach a compromise on who should be elected president. The Communists, who had 40 seats in the 101-seat body, insisted on their candidate, party leader Vladimir Voronin. The center-right coalition in Parliament lacked enough votes to elect its candidate, Constitutional Court Chairman Pavel Barbalat, without the support of the Communists. Exercising his constitutional prerogative, President Lucinschi dismissed Parliament after it failed in three attempts to elect a president.

Parliament's dissolution and the subsequent early elections revealed the depth of Moldova's political crisis. The political reforms put in place since independence were aimed more at divvying up power among leading personalities and parties than creating an effective and responsive government. Between 1991 and 1994, Moldova's first president, Mircea Snegur, concentrated power in his own hands. From 1994 to 1999, the Agrarian Party used its parliamentary majority to transfer most power from the president to Parliament. Under the constitutional amendment of July 5, 2000, a single party or coalition could wield considerable power if it gained enough seats to form a government and elect a president.

The early parliamentary elections were scheduled for February 25, 2001. The outgoing Parliament made two major changes to the electoral code. First, the campaign period was shortened to 45 days from 90. Second, the threshold for political parties and blocs to gain seats in Parliament was increased to six percent from four percent. The changes were pushed by the Communist Party, which sought to keep out of Parliament less powerful parties, extra-parliamentary political parties, and sociopolitical organizations that were preparing for the electoral campaign. Many local political analysts predicted before the elections that only four or five parties would pass the six percent threshold. In the end only three gained seats.

In a surprising result, the Moldovan Communist Party (MCP) won 50.07 percent of the vote; the Braghis Alliance (BA), an ad hoc grouping of 17 left-leaning and centrist political organizations that includes the Socialist Party and the War Veterans' Organization, 13.36 percent; and the Christian Democratic Popular Party (CDPP), 8.24 percent. Under the election law, the remaining 28.33 percent of the vote was distributed proportionally among the winners. Between their own votes and these "gift votes," the Communists won 71 seats; the BA, 19; and the CDPP, 11. The Communist Party's absolute majority in the 101-seat Parliament made it the most powerful political entity since Moldova's independence.

The numerous international organizations that observed the elections said the vote was free and fair. Moldovans in Transnistria, however, were not able to participate freely in

the election. Tiraspol separatist leaders opposed Chisinau's proposal to open election stations in the breakaway region. Theoretically, voters from Transnistria who could leave the region could vote elsewhere in the country. However, the country's harsh economic situation and fear of persecution by Transnistrian intelligence bodies meant that few from Transnistria voted.

The turnout was 67.52 percent of registered voters, or 1,606,703 people. According to official figures, 717,597 fewer people voted in the 2001 elections compared with the 1998 vote. This partly confirms unofficial data suggesting that many Moldovans have emigrated in the past three years in search of better jobs. Most have gone to neighboring countries, Russia, and Western Europe. Since many of these emigrants are in their new countries illegally, or would face costly trips to a Moldovan embassy to vote, few Moldovans living abroad cast absentee ballots.

Local and international analysts said that the Communist Party's victory was not only a sign that many Moldovans long for the social benefits, free medical services, and better living conditions of the Soviet era, but also a firm voice against the reformists, who had largely failed to deliver on their promises of the past decade. The Communists' winning message was that the governing parties were unable to deliver economic growth and, as a result of their economic mismanagement, most of the country's population lives in poverty. Most observers believe that the election result was a direct consequence of the failure of the right-wing parties to form an anti-Communist coalition in the outgoing Parliament and later to form an electoral bloc that could defeat the Communists, as was the case in the 1998 parliamentary elections. For its part, the Communist Party was the most organized party, benefiting from its Soviet-era network of branches throughout the country. It conducted an aggressive campaign, with party members and sympathizers visiting nearly every voter and promising them what they needed most.

Besides the Communists, only one other party in the outgoing Parliament, the CDPP, won seats in the new body. The Braghis Alliance was the only outside group to win seats, thanks to the efforts of its leaders in the government. Acting Prime Minister Dumitru Braghis, for example, decreased the arrears in pensions and salaries owed to public employees prior to the vote.

Contrary to the MCP's electoral promises, Communist leader Vladimir Voronin stated immediately after the elections that his party would not revise Moldova's privatization program and would cooperate with the World Bank and the International Monetary Fund. At the same time, he reaffirmed that the MCP's objectives include joining the proposed Russia-Belarus union and reintroducing Russian as an official language in Moldova, along with Romanian. The MCP also said that it would keep its promise to reverse administrative-territorial reforms, reverting to the Soviet system of counties called *raions*.

The Communist Party, though, had to form a government, but Voronin and his team were unprepared to take

on the full responsibility of governing. In the six years after the Communist Party was allowed to reregister (thanks to former President Lucinschi, who had pushed for scrapping the 1991 law that had declared the Communist Party illegal), it was in opposition. During that time, the Communists did not establish a “shadow” government or elaborate alternatives to the government’s policies. At most, the Communists expected to win 50 to 55 seats. The first 50 candidates on the MCP’s electoral list were carefully selected and were mainly former party bosses with experience in the previous Parliament or Soviet governmental bodies. The rest of the list consisted of loyal supporters with little political or managerial experience.

The Communists therefore found themselves in a difficult situation when it came time to select people to work in the executive branch. Their solution was to establish a technocratic government. Voronin’s first surprising move was the appointment of Eugenia Ostapciuc as the speaker of Parliament. It is believed that Voronin chose Ostapciuc for two main reasons. First, the new speaker was not widely known and had little political experience or influence within the MCP. Thus, the Communist leader, who intended to become the country’s third president, wanted to avoid competition between Parliament and the presidency. The candidates for chairperson from the progressive wing of the MCP were Maria Postoico, Andrei Neguta, and Victor Stepaniuc. The conservative faction’s candidates were Vadim Misin and Ivan Calin. By choosing Ostapciuc, Voronin managed to find a compromise candidate and avoid party infighting. Second, the Communists believed that the Western press would temper its increasing criticism of the country’s politics if the chair of the Moldovan legislature were a woman.

The results of the presidential election were predictable. Voronin captured 71 of the 89 votes cast by members of Parliament and was elected Moldova’s third president. On April 7, 2001, the 59-year-old former baker and police general was sworn in. Thus, Moldova became the first former Soviet state to elect a Communist as its leader. The new president kept his post as first secretary of the MCP’s Central Committee, thereby ensuring that no important decision would be made without his knowledge or accord.

On April 11, Voronin nominated Vasile Tarlev as the country’s prime minister. Tarlev, an ethnic Bulgarian, was the manager of the candy manufacturer Bucuria, one of the few profitable state-run enterprises in Moldova. He was also the chairman of the Moldovan Producers’ Association. The new team won the backing of 75 members of Parliament from the Communist Party and the Braghis Alliance. All 11 deputies from the Christian Democratic Popular Party voted against the government, showing their irreconcilable opposition to the ruling Communist Party. Six members of the previous government were included in the Tarlev Government: Deputy Premier and Minister of Economy Andrei Cucu; Minister of Education Ilie Vancea; Minister of Finance Mihail Manoli; Minister of

Energy Ion Lesan; Minister of Labor and Social Protection Valerian Revenco; and Minister of Foreign Affairs Nicolae Cernomaz. The nominal list of the new executive body was passed without debate. The only exception was Victor Topa, the minister of transportation and communications. He was accused by the CDPP of being involved in illegal activities when he headed the State Civil Aviation Administration. Tarlev’s agenda included more state intervention in the economy, the creation of state monopolies in some sectors, the introduction of strict controls over imports and exports, and the granting of preferential loans to exporters as a means of protecting domestic producers. The new government said it would boost economic growth to 5 percent annually, reduce the inflation rate to 10 percent annually, and cut the budget deficit to 1.5 percent of GDP.

Under current legislation, the process of registering a political party or movement is not overly difficult. The main task is to collect 5,000 signatures from the new party or the movement’s supporters. As of October 1, 2001, 31 parties and social-political organizations were registered with the Ministry of Justice. Many hope for the merger of several parties since there is considerable confusion over parties with similar names and political orientations. It is widely believed in Moldova that political movements are not created according to political doctrines, but rather reflect individual politicians’ desires to head political movements. For the time being, the Moldovan electorate votes mainly for the personalities on parties’ lists, not for the parties’ programs.

Members of Parliament are elected via proportional representation, with the entire country considered a single electoral district. Party leaders decide which seats on the electoral list to give to potential candidates, depending on the candidates’ contributions, financial or otherwise. There are conflicting figures on party membership, but ultimately the election results provide the best indicator of party support. Ironically, some parties in the last parliamentary elections received fewer votes than their declared numbers of members.

Financing political campaigns is the main problem each party faces. In most cases, parties look for contributions from local businesspeople. Occasionally, they seek support from abroad. In the end, the party has to pay a price, such as including contributors in the party’s list, nominating them for positions in the new government, and advocating their legislative preferences. In cases of foreign contributions, the winner of elections has to take into account the contributor’s agenda and make appropriate changes in its own political agenda regarding foreign or domestic policy. Given that in Moldova many business activities are underground (the shadow economy is believed to account for more than 50 percent of economic activity) and that some businesspersons are linked to the criminal underground, there is a real danger that legislative and executive bodies may contain special interest lobbyists, therefore paying little heed to the public interest.

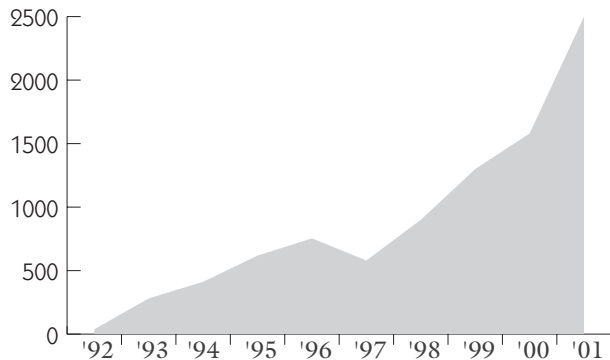
Civil Society

| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|------|------|-----------|------|------|
| 3.75 | 3.75 | 3.75 | 3.57 | 4.00 |

NGOs have been active in Moldova since 1989. During the Soviet era, NGOs were considered by authorities to be in opposition to state bodies or implanted by foreign entities. Today, NGOs are an indivisible part of Moldovan civil society and have increasing influence on state institutions. According to data from the Ministry of Justice, the number of registered foundations has grown each year, particularly following the adoption in 1998 of the Regulation on Civil Associations. The following chart demonstrates this trend.

Registered NGOs in Moldova

Total Number by Year



Source: International Foundation for Electoral Systems and the Ministry of Justice, 2000

The majority of NGOs focus on arts and culture, sports, education and training, economic development, health care, human rights, and science and technology. More than 50 NGOs focus on women's issues, 24 on disabled people, 64 on youth, 39 on ethnic communities, and 16 on animal protection. Although no NGOs are outwardly based on religion, 74 are identified as charitable and social assistance organizations. The most active among them is the local affiliate of the U.S.-based Little Samaritan group, which promotes Protestant Christianity and provides assistance to orphanages and elder homes. The group's radio network covers most of Moldova.

Despite the large number of organizations and associations (about 2,500 were registered as of mid-2001), experts on Moldovan NGO activity believe that only about 15 to 20 percent are active. The government body in charge of NGO registration occasionally forces groups to reregister, leading to complaints from NGO leaders about bureaucratic and time-consuming procedures.

During the last reregistration period between January 1997 and July 1998, only 47.33 percent of the associations managed to reregister.

The legal framework regulating NGO activity is generally considered adequate. Although the Moldovan Constitution does not specifically articulate the right to establish public associations, organic laws stipulate this right. These include the 1995 Law on Philanthropy and Sponsorship, the 1996 Law on Public Associations, and the 1999 Law on Foundations. The establishment of an appropriate environment for NGO development in Moldova was facilitated by the ratification of international documents. In 1990, the first Moldovan Parliament ratified the Universal Declaration of Human Rights and later the Council of Europe's Convention on Human Rights. Moldovan legislation allows NGOs to go to court to defend their rights, the rights of their members, or the public interest. However, a lack of experience and professionalism prevents NGOs from efficiently using the judicial system to resolve problems with central or local authorities.

NGO activity is dependent on the availability of funds. Financing from the state budget is limited, and foreign donors are the major source of funding. Local business people sporadically sponsor cultural and charitable NGOs in some local communities.

NGOs are not exempt from Moldova's value-added tax. Exceptions are made if there is an intergovernmental agreement on technical assistance and the Ministry of Finance makes a favorable decision in this regard. The same applies for customs duties. Local administrations decide local tax policies regarding NGOs. In order to prevent corruption, once the decision is reached the local administration is not legally allowed to provide exceptions to individual organizations.

Only organizations that are given the status of "public benefit associations and foundations" can receive tax exemptions. The Ministry of Finance determines this status based on a list of public benefit organizations prepared by the Certification Commission, which was created under the supervision of the Ministry of Justice. The criteria for exemption are similar to those for nonprofit organizations in the West.

Although trade unions in Moldova have been established in almost all sectors of the economy and in public institutions, they are far from effective in defending employees' rights. The trade unions resemble their Soviet-era predecessors rather than acting as worker's advocates in the Western sense. In late 2000, the main trade union broke into two separate unions: the Trade Union Confederation of Moldova (TUCM), the direct successor of the previous federation, and Solidaritate (Solidarity), a new organization. The TUCM accounts for about 80 percent of all union members in Moldova, with the rest belonging to Solidaritate. TUCM members come from the public sector as well as the agriculture and agricultural processing sectors, radio electronics, medicine, education, and cultural institutions. Solidaritate members

are employed in industry, transport, telecommunications, construction, and social services. The TUCM has been a member of the International Labor Organization since 1992 (as a successor to the General Federation of Trade Unions); it has also been affiliated with the International Confederation of Free Unions in Brussels since 1997.

The new owners of previously state-owned land formed the National Association of Farmers to lobby for farmers' rights. Public policy organizations are growing in number and strength. They distribute their message through local mass media as well as conferences and seminars.

The new government has begun to introduce some so-called "corrections" to the educational system, based on the Communists' electoral agenda. First, new books such as *History of Moldova* and *Moldovan Language and Literature* are being prepared to replace texts such as the *History of Romanians* and *Romanian Language and Literature*. It is expected that such changes will ignite protests by teachers and parents. In addition, private education institutions, which exist in greater numbers at the college and university level than at the secondary and high school level, would have more flexibility than public institutions to establish their own curriculums.

The main religion in Moldova is Christian Orthodox. It counts among its followers up to 90 percent of the Moldovan population of 4.2 million. In November 2001, the Communists rejected an initiative of the Christian Democratic Popular Party to introduce religion in schools.

Independent Media

| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|------|------|-----------|------|------|
| 4.00 | 4.25 | 4.00 | 4.25 | 4.50 |

Mass media organizations in Moldova are developing, and there are promising signs that they will become influential in the country. The birth of independent media could be linked to the establishment of the first news agencies in 1992 during the period of armed conflict in eastern Moldova. At the time, there was a lack of information in both Moldova and abroad about military operations on the front line. The BASA-Press news agency began as a part of the newspaper *Sfatul Tarii* and received initial financial support from the Soros-Moldova Foundation. Next, journalists of the governmental agency Moldova-Press who differed with their employer about how the news should be presented created the Infotag news agency.

Today, Moldova's media are diverse and generally free. However, the distribution of periodicals is still controlled by the state through the Posta Moldovei Company. Competition has been an important factor in the increasing quality of newspapers, journals, and television and radio news outlets. The media have also faced challenges from foreign print and broadcast media, including the strong presence of Russian newspapers and television and radio stations. In addi-

tion, Moldovans have access to major international television channels and some newspapers from Romania. The Internet is indispensable to many local businesses, public administration entities, and educational institutions.

The main newspapers are *Flux*, *Jurnal de Chisinau*, *Moldova Suverana*, *Comunist*, *Tara*, *Economicheskoe Obozrenie*, *Argumenty I Fakty*, and *Komsomoliskaia Pravda*. The most popular radio stations are Antena C, Hit-FM, Radio Nova, Radio PoliDisc, Radio Contact, and Russkoe Radio. Popular television stations include PRO TV, TVM, ORT, and TVR1.

Infotag, BASA-Press, Flux, and Moldpress are Moldova's leading news agencies. Others include Interlic, Nica-Press, and Deca-Press. News agencies face difficulties in selling their news bulletins abroad. Their main customers are foreign embassies accredited to Moldova, offices of international organizations, and foreign private firms and think tanks. Because of their limited funds, local businesses, print media, and governmental institutions cannot afford to pay for the daily electronic news that news agencies provide. News is posted daily on many Web sites (the most popular is www.ournet.md). The site www.moldova.org offers free e-mail news bulletins.

The most difficult problem the media faces is financing. The Moldovan market is small, and many journals and newspapers require subsidies to survive. The government subsidizes a small number of media entities. These include the newspapers *Nezavisimaia Moldova* and *Moldova Suverana*; the journals *Economy and Reforms*, *Moldova and the World*, and *Welcome*; the news agency Moldpress; and the Teleradio-Moldova radio and television network. Political parties, foreign entities, and local businesses are also major sponsors of the media.

The previous Parliament introduced many legislative amendments to restrict candidates' access to the mass media. The most restrictive rules were imposed on media controlled by the state. At times this led to odd situations, such as when on the eve of the 2001 elections Teleradio-Moldova, obeying the regulations, did not cover parties' press conferences. Parties and electoral blocs used their publications to hide the real amount of money spent on print materials. For example, the Communist Party launched about a dozen new publications that were distributed free of charge throughout the country just before the elections. In order to skirt the legislation, the Communists did not register these papers as new publications, instead calling them supplements to their official newspaper, *The Communist*. The Electoral Code states that in cases of violations of the law, the Audiovisual Coordination Council should withdraw the licenses of media entities and the Central Election Committee must disqualify the candidates from the elections. Despite the fact that violations were quite frequent, there was not a single case of withdrawal of licenses or electoral certificates.

The Constitution of Moldova and organic laws lack express provisions that would guarantee the independence

of the press and audiovisual entities. The Law on Broadcasting Media established the Audiovisual Coordination Council, an independent body that includes experts nominated by Parliament, the president, and the government. The Council oversees the activities of broadcast media. The legislation prohibits libel of public officials or state institutions and stipulates the punishments for such violations. Several cases have been brought against journalists or their employers. The registration procedure for print media is simple and is done through the Ministry of Justice. Registering a broadcast entity is more difficult. The Ministry of Transportation and Communications determines the availability of frequencies and issues licenses.

The Independent Journalism Center of Moldova was established in 1994 with the support of the U.S.-based Eurasia Foundation and the Soros-Moldova Foundation. There are also two other press institutions, the Electronic Press Association and the Journalists' Union of Moldova. In 2001, these three NGOs, in cooperation with the Council of Europe and the European Union, hosted seminars and workshops for journalists and public officials on the role of regulatory bodies in the broadcasting sector and relations between the state and the press in a democratic society.

In Transnistria, freedom of speech and access to information is limited. Local authorities censor local news agencies, newspapers, and television and radio stations. The majority of media are state-owned. If their content does not conform to guidelines set out by the separatist regime, their managers and journalists risk being fired or arrested. The regime in Transnistria prohibits the distribution of national newspapers printed in Chisinau.

Governance and Public Administration

| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|------|------|-----------|------|------|
| 4.25 | 4.50 | 4.50 | 4.50 | 4.75 |

The 1994 Constitution provides for the separation of the executive, legislative, and judicial branches of government. The July 2000 constitutional amendment brought about a major change in the balance of power. Elected by Parliament, the president nominates the prime minister based on the distribution of party power in Parliament. Within 15 days of being nominated, the prime minister must seek parliamentary approval of his new cabinet and its agenda. After the February 2001 parliamentary elections, the Communists took control of both the legislative and executive branches. In the new political system, there are few real checks and balances. President Voronin faces little difficulty in implementing his party's agenda. As the head of the executive branch, Voronin has the ability to influence the government and dismiss cabinet members.

The Tarlev government is subordinate to the Parliament and the president, and has little room to maneuver. Members of the new cabinet have to follow the MCP's

agenda even if they are not formally party members. The dismissal of Foreign Minister Nicolae Cernomaz is widely seen as an example of what happens to those who do not follow the rules.

Transnistria is viewed in Chisinau as a part of Moldova, but in fact this eastern territory of the country is run as an independent state. In December 1991, Transnistria staged a referendum and a presidential election simultaneously. The referendum resolved that Transnistria would continue to be part of the Soviet Union, which for many has come to mean being part of a Greater Russia. Igor Smirnov won the presidential election. In 1992, Russia's Fourteenth Army and Transnistrian forces, composed of locals and Cossacks from Russia and Ukraine, defeated Moldovan forces in an operation commanded by General Aleksandr Lebed, later a top Russian politician. This cemented the secession and, with it, the position of the ruling elite in Tiraspol. On December 9, 2001, Smirnov was reelected president of Transnistria with 86 percent of the vote; voter turnout was reportedly 65 percent. The two losing candidates, both ideologically indistinguishable from the victor, claimed fraud. International institutions and Western governments refused to observe the election.

The last census in 1989 found Transnistria's population to be 41 percent Moldovan, 28 percent Ukrainian, and 25.5 percent Russian. There have been no notable inflows or outflows of a particular group since then. Many of the Russians have lived in the region since the Soviet era. The Ukrainians divide approximately equally into two groups: Ukrainian-speaking rural inhabitants, native to the area, and Russified urban residents, resettled there from cities in Ukraine. In theory, Transnistria has three official languages: Russian, Ukrainian, and Moldovan. In practice, the authorities use only Russian as an official language. Moldovan/Romanian and Ukrainian, which are the native languages to three quarters of the population, are completely excluded from government and administration and relegated to marginal roles in other spheres of public life. The media and the educational system are geared toward the linguistic Russification of non-Russians. The Soviet social structure remains a mix of kolkhoz socialism and feudalism, according to the U.S.-based Jamestown Foundation.

Laws guarantee citizens the rights to be involved in public life and to influence the decision-making processes of state institutions. Nevertheless, they are ambiguous and stipulate restrictions on public participation in parliamentary and local council sessions. For example, the 1998 Law on Local Public Administration says that local council sessions are open to the public but also that only persons whose presence is considered necessary may attend. Similarly, the Parliamentary Regulation stipulates that "sessions, as a rule, are open to the public," but in reality the procedure to obtain permission to observe a session is very complicated. Speaker Eugenia Ostapciuc even refused to allow two Spanish legislators to attend a session of the Moldovan Parliament during their work-

ing visit to Moldova in November 2001 at the invitation of the opposition Christian Democratic Popular Party. Ostapciuc said that the Spanish lawmakers had not been officially invited by the Moldovan authorities to visit the country.

Parliament has ratified the UN Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters. It also has adopted the Law on Access to Information. However, authorities have been slow to implement these documents.

The MCP is bringing back the Soviet-era administrative layout of the country, consisting of 40 local territorial raions that had been replaced early in Moldova's transition by 10 *judete* (counties) and autonomous regions. At the end of December 2001, the Communists, along with the Braghis Alliance, approved a law reestablishing the old territorial-administrative system.

The Communists hope to satisfy some of their voters' desires to live within the borders of their old district. More importantly, the Communists hope to install their own people in local administrative institutions. Currently, prefects, appointed by the previous central government, act alongside local elected officials, most of whom are not MCP members.

In June 2001, Parliament amended the Law on Local Public Governance to remove the authority of judet councils over local budgets. Government officials stated that the change was made because of the "irresponsibility and carelessness of judet councilors," who are elected by local communities. The local councils will now approve annual budgets, but the judet prefects, who are nominated by the central government, will manage these budgets. The CDPP leader Iurie Rosca stated during the parliamentary debates that "these amendments would end the history of local autonomy in Moldova" and would be in violation of the European Charter on local autonomy.

During the past ten years, Moldovan civil society has learned how to influence the decisions of public authorities. NGOs use meetings, pickets, demonstrations, and initiative groups when citizens and public authorities do not reach a consensus or when public opinion is ignored. In 2001, however, only a few public actions took place. First, there was a demonstration immediately after the parliamentary elections involving a group of high school students who protested the Communists' plans to introduce Russian as a second official language, join the Russia-Belarus Union, and ban public school courses on the history of Romanians. In addition, in December 2000 and April 2001 the Reform Party and the National Romanian Party picketed the Russian embassy in Chisinau. The protesters demanded the acceleration of the withdrawal of Russian army munitions and troops in eastern Moldova. In March 2001, medical workers picketed the Balti Judet Council, demanding their unpaid salaries for 2000. The protest ended when the demands were partially satisfied. More protests may lie ahead if the MCP

fails to deliver on promises to boost economic growth and improve living conditions, or if it moves to have Moldova join the Russia-Belarus Union or introduce Russian as an official language.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
|------|------|-----------|------|------|
| 4.25 | 4.00 | 4.00 | 4.00 | 4.00 |

During its first decade of independence, Moldova created a judicial system and established a basic legislative framework. Moldova receives aid to reform its judiciary from donor countries and international organizations; the major technical assistance provider in this regard is the United States. The Constitutional Court, the Supreme Court of Justice, the Appeals Court, the Supreme Council of Magistrate, and district courts are increasingly gaining influence in Moldovan society.

The Constitutional Court is actively involved in examining petitions from state and judicial bodies. According to the Constitution, Parliament, the government, and the Supreme Court of the Magistrate each appoint two Constitutional Court judges to six-year terms. Since its establishment in 1995, the Constitutional Court has examined 450 petitions and invalidated 53 laws, 43 governmental decisions, 17 legislative decisions, and 8 presidential decrees. It has adopted 29 decisions on the interpretation of 45 articles of the Constitution and issued 13 initiatives to change the supreme law of the country.

The most recent petitions examined by the Constitutional Court involved Moldova's system of governance. Another important petition examined by the court was a legislative initiative of 34 parliamentarians to amend the Constitution to abolish parliamentary immunity. By implementing the court's affirmative decision, Moldova would join the list of European democracies, such as Austria and Switzerland, in which parliamentary immunity has been canceled. This decision would likely have a significant impact on Moldova's political scene, since it is widely believed that a no-immunity regime would reduce the number of people who are eager to be in Parliament in order to avoid being prosecuted for their illegal activities.

In other recent decisions, the Constitutional Court approved constitutional amendments on the dissolution of courts within the Moldovan judicial system that duplicated the work of district courts; certified the appointment of judges by Parliament; and reduced from five years to four the terms of members of the Supreme Council of Magistrate. However, Pavel Barbalat, whose mandate as the Court's chairman expired in February 2001, has stated that only half of the Constitutional Court's decisions have been enacted.

The Supreme Court of Justice hears appeals of cases where either party to the litigation believes that a lower court decision has violated their constitutional rights and liberties. The Supreme Court periodically adopts interpretations of current legislation by courts. Recent decisions interpreted provisions of the Constitution involving the rights of individuals and treaties, conventions, and international agreements.

The criminal code was amended in 2001 to provide for more severe punishment of human trafficking, a crime that has in recent years been on the rise in Moldova. Until recently, such criminal activity was only punished as forgery. Under the amendments, the penalty for trafficking is 5 to 25 years in prison. It is believed that most of the approximately 700,000 Moldovan citizens employed abroad are women. A great number of them, with an average age of less than 30, practice prostitution in Western European and Balkan countries and are trafficking victims.

The Constitutional Court also stated recently that the rights and obligations of individuals are the same regardless of property ownership and that all are equal under the law. The court made this ruling while examining a petition by a group of parliamentarians challenging the constitutionality of criminal code provisions on abuse of power in the state and private sectors.

Moldovan legislation guarantees human rights for all citizens, but enforcement of the law is still a problem. In a report submitted to Parliament in June 2001, the Center for Human Rights in Chisinau said that most violations involve private property, social security, labor issues, access to information and, in some cases, access to justice. Despite its limited budget and resources, the Center has examined more than 8,000 complaints and opened three regional offices. They are in the Balti judet in the north as well as in the Cahul judet and the Gagauz-Yeri administrative unit, both in the south.

Violations of human rights in Transnistria continue to be a major problem. The judicial system of the unrecognized republic operates outside of Moldovan jurisprudence. The Strasbourg-based European Court for Human Rights (ECHR) highlighted this problem when it examined the case of Ilie Ilascu. In this case, a court in Tiraspol sentenced four members of the Popular Front on charges of murder during the 1992 conflict. In May 2001, Ilie Ilascu, who has been elected twice to the Moldovan Parliament, was released following international pressure. President Voronin stated that the release came as the result of an order from the Kremlin received by Tiraspol's leaders. In return for his release, Ilascu allegedly agreed to withdraw his petition from the ECHR, which had accused Russia of human rights violations in Transnistria in 1991 and 1992. Ilascu, however, did not withdraw his petition. In September 2001, Ilascu, along with 30 European parliamentarians, filed a motion urging the Parliamentary Assembly of the Council of Europe to draft a resolution calling for the release from Transnistrian jails of the other three members of the so-

called "Ilascu group": Andrei Ivantoc, Tudor Petrov-Popa, and Alexandru Lesco.

The separatist regime also restricts freedoms of speech and assembly and has politicized the educational system. The Tiraspol administration prohibits schools from using the Romanian language as a medium of instruction and from writing in Latin script. It has mandated that schools use the Russian alphabet, Soviet-style curriculums, and books remaining from the Soviet era or brought in recently from Moscow.

The ECHR recently ruled against Moldova in a case that was nominally about religion but that had clear political undertones. It involved the refusal of the Moldovan government to register the Basarabian Metropolitan Church (BMC). The BMC is a Christian Orthodox congregation under the leadership of the Romanian Orthodox Church in Bucharest. The government justified its policy on the grounds that Moldova already had one Christian Orthodox entity, the Moldovan Metropolitan Church, which is under the aegis of the Russian Orthodox Church in Moscow. The ECHR took the case after the Moldovan Supreme Court rejected the BMC's appeal.

In October 2001, the court ruled that the government had violated two articles of the European Convention on Human Rights—Article 9 on freedom of religion and Article 13 on the right to an effective remedy—and ordered the Moldovan government to register the BMC. The Church received 27,025 euros (\$24,007) for pecuniary and nonpecuniary damages and for legal expenses. Risking condemnation by Western European countries, Premier Tarlev has refused to comply with the verdict. According to the Moldovan Helsinki Committee for Human Rights, the BMC has about one million members and administers 18 to 20 percent of Moldovan churches.

Corruption

| 1999-2000 | 2001 | 2002 |
|-----------|------|------|
| 6.00 | 6.00 | 6.25 |

Corruption remains common among state officials, officers in law enforcement agencies, and other public sector employees. A March 2001 report by the Center for Strategic Research and the local affiliate of Transparency International found that two-thirds of Moldovans are prepared to use "unofficial ways" to get what they want when they go to public offices. The report, "Corruption and Quality of Governance," also indicated that 63 percent of poll respondents explicitly said they would pay bribes in order to get what they needed from public officials. Corruption is believed to be worst in customs, revenue services, public schools, and health care, but graft is a problem in almost every part of the public sector.

The report also noted that individuals often pay fees to have criminal cases closed or files disappear. Many believe

that those who are convicted of violating the law can pay illicit “taxes” to reduce their punishments. For example, \$1,000 might purchase a one-year reduction in a jail sentence. Transparency International believes that this explains why 98 percent of prisoners are from rural areas, which are poorer than the cities. The most prominent case in this regard involved the arrest of A. Toderasco, the chief judge of the Soroca Judet court. He was caught taking a 1000 *lei* bribe (around \$78) to free a petty thief without a trial. Similarly, the head of the Balti municipality was caught taking a \$5,500 bribe from a local businessman who wanted to facilitate a transaction. A report funded by the World Bank, the United Nations Development Program, and the U.S. Embassy in Chisinau stated that Moldova is the second most corrupt country among former Soviet republics, after Azerbaijan.

At times, low-level officials make public their findings about corruption, but this happens mostly for politically motivated reasons. Perhaps the most notorious such case involved General Nicolae Alexei, the former head of the Anticorruption and Fight Against Organized Crime Department (ACFOCD) and now a member of Parliament representing the Christian Democratic Popular Party. He filed a lawsuit challenging the legality of the government’s decision to end an ACFOCD investigation into allegations of smuggling involving senior officials. The district court decided in favor of Alexei and the Chisinau Court confirmed the decision. The Supreme Court of Justice is currently hearing an appeal from the Prosecutor General. Meanwhile, Parliament has waived Alexei’s parliamentary immunity. Mihai Plamadeala, a former Minister of Interior and now a member of Parliament from the Braghis Alliance, said that as a result of the decision to remove Alexei’s immunity law enforcement officers would see no reason to fight corruption and organized crime. Plamadeala also said that criminal groups and state institutions are so linked that it is impossible to reveal a crime without “bothering” someone in the highest political echelon.

The underground criminal world carries out some traditional public sector activities. For example, creditors seeking repayment of debts usually do not go to the police or courts, since they would have little chance of getting their money. Instead, they ask one of Moldova’s criminal groups to do it in return for 50 percent of the amount of the debt. According to a report by Transparency International-Moldova, there are some 300 criminal groups in Moldova, most of which belong to one of 35 criminal clans. One such group has a network of more than 1,200 members in almost every village and town. Law enforcement institutions have had little success in trying to fight organized crime. However, one notable success came when in October 2001 the ACFOCD arrested five individuals in Chisinau. Four of the detainees are from the Caucasus and were leaders of criminal communities in Odessa, Ukraine, Georgia, and the Stavropol and Krasnodar regions of Russia. The fifth person is a Moldovan. According to law

enforcement officials, they had met to discuss the “distribution of influence zones.”

The problem of corruption in Moldova has much to do with the smuggling of goods and arms through Transnistria. The enclave is used for smuggling not only by separatists but also by criminals from Ukraine, Russia, and other parts of Moldova. This is one reason why no settlement to the armed conflict has been reached. The Communist leadership deserves much credit for trying to address customs fraud in Transnistria. By withdrawing old customs stamps in September 2001 that were given to Tiraspol in 1998, the Tarlev government has done more in this area than any of its predecessors. Tiraspol, however, continues to use the old, invalid stamps, seals, and forms, and is routing the territory’s trade via Ukraine.

These actions are possible due to the support of the Ukrainian government. In late August of 2001, Voronin met in Ukraine with Ukrainian President Leonid Kuchma and requested the creation of 12 joint Ukrainian-Moldovan customs stations on the Ukrainian side of the border in the Transnistria region. Voronin interpreted Kuchma’s response as positive. On September 1, Moldovan customs employees moved to the designated locations. The same day, however, Kiev expelled the Moldovan employees from the Ukrainian territory. Since then, Moldovan Prime Minister Vasile Tarlev and Deputy Prime Minister Dumitru Todoroglo have headed delegations to Kiev pleading for the creation of joint customs posts. Both delegations returned home empty-handed.

On November 9, Kuchma and Voronin met in the Ukrainian city of Vynnitsya to discuss the problem. Kuchma categorically refused to cooperate. Ukraine says that Transnistria has the right to conduct its own foreign trade under agreements between Chisinau and Tiraspol signed in 1996 and 1997 that were mediated by Russia and Ukraine. The 1996 accord authorizes Transnistria to use Moldovan stamps, seals, and forms, provided that Transnistrian firms using these documents register with the government in Chisinau and pay dues. Transnistria, however, has used the Moldovan documents without requiring its firms to register or pay dues. Having mediated the accords, Ukraine now appears to support this contrary system.

The 1997 understanding is part of the so-called Primakov Memorandum, an informal agreement that carries no legal force and has never been ratified. If implemented, the Primakov Memorandum would create a “common state” of Moldova and Transnistria. However, at the start of his presidency, Voronin abandoned the document. The same is true for the 1996 document. Kiev, however, is now siding with Tiraspol and implicitly with Moscow in arguing that these documents must be adhered to, except for the customs provisions.

The smuggling situation in Transnistria attracted the attention of Interpol when an al-Qaeda cell was tracked down in Bosnia in October 2001 after the September terrorist attacks on the United States. Interpol investigated

the trafficking of nuclear and strategic materials that went to Bosnia through Romania and via Transnistria.

Moldova's recent admission to the World Trade Organization may lead to greater transparency and liberalization, as the government is forced to adhere to the trade body's rules and regulations. At the same time, the Tarlev Government has promised more intervention in the economy, some of which may run counter to the government's international commitments.

Transparency International's 2001 Corruption Perceptions Index ranks Moldova as the 63rd most corrupt country out of 91 surveyed. It received 3.1 points on a 10-point scale, where 0 is the most corrupt. Moldova improved from 74th in 2000, with 2.6 points, and 75th in 1999. Transparency International said that Moldova is the least corrupt among countries of the Commonwealth of Independent States, with Azerbaijan ranking 84th, Ukraine, 83rd, and Russia, 81st. The organization opened its office in Moldova in September 2000.

A poll on corruption released by the Viitorul Foundation in November 2001 shows that 49.8 percent of respondents believe that corruption is widespread in daily life. In addition, 29.2 percent of respondents say they are routinely forced to bribe public officers in order to obtain results, 33.8 percent say they sometimes must pay bribes, and 15.9 percent say they must bribe officials only in cases where the bureaucracy is particularly rigid and inefficient. Only 20.7 percent of respondents said they never offered bribes.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

| Privatization | | | | |
|----------------------|-----------|-----------|------|------|
| 1997 | 1998 | 1999-2000 | 2001 | 2002 |
| 4.00 | 4.00 | 3.50 | 3.50 | 4.00 |
| Macroeconomic Policy | | | | |
| 1998 | 1999-2000 | 2001 | 2002 | |
| 4.25 | 4.25 | 4.25 | 4.50 | |
| Microeconomic Policy | | | | |
| 1998 | 1999-2000 | 2001 | 2002 | |
| 4.25 | 4.25 | 4.25 | 4.25 | |

The state of the Moldovan economy has considerable influence over political affairs. During the 2001 parliamentary elections, for example, all parties hotly debated the country's economic difficulties. The opposition closely watches the government's economic performance and singles out failures for criticism. About 80 percent of Moldovans live on less than one U.S. dollar per day,

and this staggering level of poverty was one of the major factors behind the Communists' victory in the February parliamentary elections. The MCP's main pledges during the election campaign were to increase salaries and pensions and reduce the price of bread. The electorate was less receptive to the Communists' competitors, who had more sophisticated messages regarding market reforms that would improve the standard of living over time.

The country lacks mineral resources and depends heavily on agriculture. It relies on imported energy, mainly from Russia, and has a history of payment arrears to its major supplier, Russia's Gasprom. Transnistria has 45 percent of Moldova's industrial potential, but since the government does not control it, Chisinau is unable to collect duties on goods manufactured in the territory. Moreover, the Moldovan underground economy is believed to amount to about 50 percent of gross domestic product.

The country's foreign debt stands at \$1.911 billion, or 154 percent of gross domestic product. Moldova must pay about \$180 million in 2002 to service the foreign debt or else reschedule a portion of the debt. In addition, two international rating agencies, Fitch IBCA and Moody's, lowered Moldova's credit ratings in 2001. In June, Fitch IBCA downgraded its ratings for Moldova's long- and short-term foreign currency outlook from B- to CC and from B- to CCC, respectively. In July, Moody's downgraded the rating of Moldova's Eurobond issue to Caa1, its bond rating to Caa1, and its bank deposit rating to Caa2.

In its first decade of independence, Moldova's GDP fell dramatically by 60 percent. Moldova registered economic growth of under 4.5 percent in 2001 compared to an initial forecast of 5 percent. This growth allowed the government to maintain relative economic stability. The agricultural sector registered growth of 1.9 percent while industrial production increased by 14 percent. An unfavorable indicator for the national economy is the fact that only 33 percent of businesses reported profits, amounting to 1.4 billion lei (\$107 million), while 48 percent reported losses, which amounted to 1.6 billion lei (\$123 million).

Inflation in 2001 was estimated at 4.3 percent. Prices for food rose by 3 percent, manufactured goods by 7.4 percent, and services by 4.3 percent. Foreign trade in 2001 came to more than \$1.45 billion, up by 16 percent from the previous year. Exports increased by 24 percent and imports by 12 percent. In addition, although the national currency, the *leu* ("lei" in singular form) is relatively stable, the exchange rate fluctuated during 2001 between 12.93 and 13.09 lei to the dollar. The average salary rose by 29 percent to 491 lei (\$37.8), while real earnings rose by 17 percent. Public employees earn slightly less on average, around 440 lei per month. Salary arrears increased sharply from 2000.

The new Communist government has paid particular attention to social problems and has increased pen-

sions for 444,700 people. As a result, the average monthly pension rose from 75 to 91.76 lei (\$7). Members of Parliament and the government, as well as judges, prosecutors, and ordinary public servants, continue to benefit from special retirement conditions. They receive pensions that are up to 15 times higher than those of ordinary citizens. Budget allocations for social needs have grown by 10 percent and salaries paid to public employees by 41 percent.

The privatization process slowed significantly in 2001. The government collected 23 million lei (\$1.8 million) in privatization proceeds, compared to the 300 million lei (\$23.4 million) forecast in the state budget. Wine and tobacco companies, the state telecommunication monopoly MoldTelecom, and the energy distribution network in northern Moldova are among assets that the government has committed itself to selling off in memorandums with the World Bank and the International Monetary Fund. The government has selected the Austrian bank Raiffeisenbank to be an advisor in the organization of the privatization tender for MoldTelecom. The rest of the companies will be privatized through foreign investment deals instead of international auctions as previously envisioned. In November 2001, Moldovan and Russian officials reached a deal in which Chisinau will use the assets of 19 tobacco-fermentation firms, the largest cigarette plant, and wineries and brandy distilleries to cover debts for imported gas.

The Communist-dominated Parliament reduced income taxes for businesses from 28 to 25 percent. It is likely that in 2002 the government will consider reforming the tax system. The business community complains that current tax policy does not stimulate economic development. Moreover, it is widely believed that high taxes are the main reason the government collects relatively little tax revenue and the underground economy is strong.

Although Moldova has joined the WTO, its trade legislation still must be adapted to meet international regulations. At present, an importer has to present 11 documents at a Moldovan border crossing. In 1998, the Moldovan government enacted a strict resolution aimed at controlling customs costs of some imported goods. This supplement to the customs regulations specifies the indicative prices for a variety of imported goods. If the price of a commodity claimed by the importer is below the listed figure, the importer has to provide additional information to prove the price claimed. The customs tariffs for imported goods are applied according to the Customs Tariff Law and 2001 Budget Law.

Besides tariffs, all imports are assessed a value-added tax (VAT), as well as an excise tax. Importers also must pay a 0.25 percent tax for customs. Customs tariffs are not applied to goods produced in and imported from Romania and members of the Commonwealth of Independent States that have ratified free trade agreements. The VAT generally applies to all goods and services sold in

Moldova, although it is not collected in the breakaway region of Transnistria. Although the Tax Code and the 2001 Budget Law stipulate a number of exceptions, the general VAT rate is 20 percent of an item's sale value. For imported goods, the VAT is generally payable at the border before the goods enter the country.

The banking system was created in the early 1990s. The National Bank of Moldova, the central bank, supervises commercial banks and is independent of the government. The laws on the banking system correspond to international standards. There are currently 20 commercial banks in Moldova. The largest are Agroindbank, Petrol Bank, Banca de Economii, Moldindconbank, Banca Sociala, and Victoriabank. The state holds a majority of shares in only one bank, Banca de Economii. It is expected that the government will accede to IMF and World Bank pressure and sell these shares through an open privatization tender. The international financial institutions view Moldova's financial and exchange rate policies, which are carried out by the National Bank, to be among the few bright spots in the country's macroeconomic performance.

The legal system protects and facilitates the acquisition and disposition of property. Moldova has adopted laws on property and on mortgages, but the system for recording property titles and mortgages is still under development. Moldova has acceded to key international agreements on intellectual property rights and industrial property protection, including the 1967 International Convention on Intellectual Property; the Bern Convention on the Protection of Literary and Artistic Property; the Rome Convention on the Protection of the Rights of Entrepreneurs, Producers of Phonograms, and other Distributing Organizations; and the WIPO Treaty on Copyrights. The country has also adopted local laws and governmental decrees to protect intellectual property, patents, copyrights, trademarks, and trade secrets.

Although many basic policies are in place, there is little active enforcement of laws on the protection of private property and the freedom to engage in entrepreneurial activity. An exception is the recent decision of the Moldovan Supreme Court of Justice in a dispute between the government and the Oil Importers and Transporters Union. The Court approved an October decision of the Appeals Court to suspend the government's decision to ban the transportation of oil imports by truck. The government's move meant that oil imports could be transported by rail only. The Court found the government's decision to violate legislation that guarantees free competition in business.

Moldova's primary export market remains Russia and other CIS countries. Major exports include food products, wine, and tobacco, which together account for 60 percent of total exports. In the first 11 months of 2001, the country's export revenues came to \$524.8 million. According to the country's export strategy for the next

four years, Moldova will focus on increasing exports to Russia, Ukraine, Belarus, Romania, Germany, Italy, and Great Britain. The government intends to develop the agro-industrial, engineering, light industry, and services sectors, especially in areas involving advanced technologies that could boost exports.

The authorities are working to create a positive environment for private investment, but much remains to be done. The European Bank for Reconstruction and Development, which is one of the largest investors with 200 million euros (approximately \$178 million) in 23 projects, said in September that “the investment climate in Moldova is unfavorable and needs improvement.”

In order to attract foreign private investment, the country needs to develop a modern infrastructure and active markets for urban land and real estate. Cumulative direct investment reached only \$420 million in 2001, approximately the amount Estonia typically attracts each year. Observers say that some potential investors may be turned off by the Communist government’s uncertain commitment to reform. The largest shares of investment have come from Russia, Spain, the United States, Germany, France, and Great Britain.

The government’s program on privatization in the energy sector is aimed at ensuring a reliable and competitive energy supply. The government sold three electricity distribution companies to the Spanish firm Union Fenosa and is currently preparing to sell the remaining two electricity distribution companies and other power generation assets. Although not official policy, it is widely known that for strategic sectors of the economy such as energy the government prefers to have experienced foreign investors instead of local investors.

The Washington-based Heritage Foundation and the *Wall Street Journal* placed Moldova 105th out of 155 countries in their 2002 Index of Economic Freedom, which was released in November 2001. Although Moldova falls into the category of “Mostly Unfree,” it is rated higher than other countries in the region such as Romania, Russia, and Ukraine.

Under its work program for 2001 through 2005, called “Economic Recovery—The Country’s Recovery,” the government will continue reforms while emphasizing social needs. Moldova plans to reform the public pension system and gradually raise the retirement age to 65 for men and 60 for women. The legal framework for private pension funds is also being developed. In education, the government intends to complement the introduction of a modern, unified curriculum with a program to reform the structure and management of public education. The authorities are initiating a restructuring of the public health care system, which will involve consolidating existing facilities, introducing an official fee-for-service scheme, and partially privatizing health services. The government acknowledges that the social assistance system is in need of fundamental reform. The United Nations Development

Program’s latest annual report ranked Moldova 98th out of 162 countries in human development.

The World Bank granted \$17.3 million to the Moldovan Health Investment Fund (FIS) for reconstruction and outfitting of health units across the country. FIS will spend a total of \$20 million from the World Bank to complete the project, which also includes the purchase of ambulances and the training of family doctors and medical assistants. In November 2001, the village Cosnita in Chisinau County opened the first health center restructured under the World Bank-funded Health System Reform project. The Health Ministry had reopened 217 public pharmacies by the end of 2001. The Health Ministry also announced plans to rebuild the state-owned network of pharmacies and instructed county health authorities to open drugstores in villages that have hospitals lacking pharmaceutical offices. According to government statistics, the domestic pharmaceutical industry covers only 5 percent of the country’s needs, forcing the rest to be imported.

Moldovan authorities make efforts to ensure that education from the first through ninth grades, which is compulsory, is free of charge. The ministry intends to open more night and vocational schools for youths who are unable to attend regular schools. Education officials say that at least 36 kindergartens have been closed over the last six years because of a lack of funds. Statistics show that only a quarter of children under the age of five attend kindergarten, and only half of 6-year-olds go to kindergarten. The UNICEF office in Moldova has implemented a general education project that is aimed at developing and implementing a new early childhood education model for nursery and kindergarten-age children and at improving teacher and parent training. The intention is to see this new model integrated into Moldova’s National Reform Program.

In a 2001 public opinion poll by the Center for Sociological, Politological, and Psychological Analysis and Research, respondents expressed disappointment with the government’s performance regarding living standards (88 percent disappointed), wages (88 percent), and health care (86 percent). Moreover, 77 percent of respondents said they were not happy with their way of life. Most respondents are unhappy with the medical care they receive (89 percent), the money they have (88 percent), and the cleanliness of the community in which they live (73 percent).

Conditions for a restoration of international lending by international agencies include the privatization of the telephone operator MoldTelecom and of the wine and energy sectors. The agencies are also calling for land reform and the adoption of a bankruptcy law. IMF funds worth \$12 million could be dispersed if the changes are implemented. A World Bank decision on a third Structural Adjustment Credit, worth \$30 million to \$40 million, is to be taken at the beginning of 2002.

In a public address on November 5, President Vladimir Voronin promised that the government would fulfill all of the IMF and World Bank conditions. On November 8, however, Parliament unanimously adopted a 36 percent increase in pensions beginning on December 1, a move that will cost the state more than 290 million lei (\$22 million) per year. That same day, the legislature also approved amendments to the law on privatization, allowing the state to seize privatized firms that have become bankrupt or that owe debts to creditors worth more than half of their assets. The state can also seize firms in which

investors do not fulfill the commitments stipulated in their privatization contracts. The privatization amendments are likely to complicate relations with foreign donors. Although foreign currency reserves are large enough, there is great risk that Moldova could default on its foreign debt in 2002.

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