

# notes

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## A USEFUL CRISIS FOR MOLDOVA

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For a long time coined as the success story of the Eastern Partnership (EaP), Moldova's EaP leadership is now challenged by a series of problems that occurred in the reform process mainly due to corruption scandals in the banking system and in other important areas such as control of judiciary, public procurement, etc., which is a result of "oligarchisation" of the politics. At the same time, the domestic political crisis, along with the regional instability and the geopolitical confrontation in Eastern Europe, has generated additional tensions and polarization within the Moldovan society.

### Moldova's context at a glance

After the 2009 change of the power which brought to power a reform-minded pro-European government, Chisinau started to implement a set of reforms aiming to modernize the country and get closer to European Union. In light of an increasing dynamic in relations between Moldova and the EU, the two have negotiated an Associa-

tion Agreement (AA) which includes a Deep and Comprehensive Free Trade Area (DCFTA). The AA has been signed and ratified in 2014 amid an increasing regional tension due to the Russian-Ukrainian war, however, also just few months ahead of the parliamentary elections that took place on November 30, 2014.

The signature of the AA was considered a success of the Moldovan ruling coalition (Alliance for European Integration) that saw the document as a roadmap for modernization and a step to prepare for getting an officially recognized membership perspective. Although the AA (with DCFTA) provisionally entered into force only since 1<sup>st</sup> September 2014, some positive shifts in trade patterns have been already observed, having twofold increase, or even more, in exports in certain areas related to agricultural products. Overall, in the long term, the independent forecast points out that the economy will grow by about 4.6% every year due to DCFTA, however much depends on the efforts made by Moldova and the regional

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The "success story" of Moldova was not only about the Moldova's drive for reforms, it was also about the regress taking place in the other countries of the Eastern Partnership.

Since the end of April 2014, Moldovans holding the biometric passports can travel to the EU without visa.

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context, both of which are not favorable currently and therefore the results are quite modest.

Aside from the positive developments, the DCFTA with the EU have also created significant difficulties to Moldova. Russian Federation through its deputy PM Dmitri Rogozin has stated many times that Chisinau's association with the EU will cause problems to Moldova, saying that "*Moldova's train en route to Europe would lose its cars in Transnistria.*", which basically meant that Russia may recognize Transnistria's independence since, according to Russia, the DCFTA does not reflect the interests of the secessionist region. The Russia-sponsored breakaway region of Transnistria, uncontrolled by constitutional authorities of Moldova, did not agree on DCFTA implementation yet. In order to deflect Russian spin and propaganda on the effects of the DCFTA on the Transnistrian region, the government of Moldova astutely invited representatives of the Tiraspol de-facto administration, the secessionist administration in Transnistria, to take part in the negotiations over the Agreement. Their presence at the negotiations, however, did not change their attitudes toward Chisinau.<sup>1</sup> As for now, the Transnistrian region still enjoys the old system of GSP+ (General System of Preferences), nevertheless, the EU accepted the delay until January 2016 when the de-facto authorities shall take a decision, otherwise, producers in this region will no longer enjoy the preferential trade system offered by EU and will trade with the EU in

## Moldova's fading "success story" illustrates that the European integration process is not irreversible.

the format of Most Favored Nation system. It is however a political decision, since the economy already made its choice: 40% of the exports originating in Transnistrian region go to constitutional Moldova, more than 30% to the EU and less than 15% to Russia.

On top of the 2013 Russian imposed wine ban –which represents a big chunk of Moldovan exports- immediately after the decision of ratification of the AA and aside of Russian statements, Kremlin imposed a unilateral ban on meat, fruits and other products. Since 2009, the policy of Russia in Moldova was to discourage a closer cooperation with the EU through creation of obstacles and building on a narrative that the association with the EU will bring more troubles than benefits. Some of the obstructions refer to the Gagauz autonomous region which held a referendum on whether joining the Customs Union (now Eurasian Economic Union) or the European Union. The Turkish-speaking Christian orthodox region that represents about 4.5% of Moldovan population is actively supported by the Russian Federation and had a high rate of participation in the referendum held on 2 February 2014. The plebiscite was declared illegal by central authorities as it was organized in violation of Moldovan laws. The results, however, merit attention, as 98% voted in favor of the Rus-

sian-led Customs Union as well as in favor of independence of Gagauz region "should Moldova lose its sovereignty". Although incorrect, the "loss of sovereignty" was explained in the region, with the support of the Russian propaganda, as the signing of the Association Agreement with the EU. The law-enforcement agencies initiated criminal proceedings in order not to be considered passive, though, in reality Chisinau tried to de-escalate since nobody of those involved in the organization of the referendum was sentenced.

Although the conflict between the central government and the Gagauz autonomous region had also some center-periphery nuances, it mainly showed how fragile is the control of the Moldovan government of some of the regions and how strong is the Russian propaganda and how diverse are Moscow's tools to project its power in Moldova. Yet, the example of the illegal referendum was a clear sign that the Transnistrian region, once considered Kremlin's most effective instrument to block Moldova's rapprochement with the West, did not hold enough significance to spoil Moldova's association with the EU, which made Moscow to resort to other loyal actors in Moldova such as the Gagauz claim for autonomy.

The Transnistrian region, however, got more weight with the Russian-Ukrainian war. The illegal presence of the Russian ammunition and its soldiers (around 1,800) along with an increasingly contested peacekeeping mission formed by Russia, Moldova and Tiraspol de facto authorities, brought to Moldova more international attention and higher risk of escalation. The tension is felt in Chisinau due to an increased pressure from Moscow but the problem of Moldova lies not only in military security, though.

### An incapable political class

Struggling with corruption since its independence, Moldova's achievements are not remarkable. On the contrary, according to **Corruption Perception Index Moldova** got worse from place 89 in 2009 to place 103 in 2014. Corruption is endemic at all levels, however, is seldom punished at the higher level. In 2014, a corruption "earthquake" shook the Moldovan society and political elite. Allegedly more than \$1 billion, which is about 15% of GDP, was extracted from Moldova due to corruption and mismanagement. The scheme was operated through the "Banca de Economii" (Savings Bank) -in which the state is shareholder- and through two other private banks. Although corruption is widespread in the banking system at least since 2007, the amounts heavily increased in 2014 reaching the ceiling of millions of dollars just few days ahead of parliamentary elections held on 30 November 2014.

Putting the fight against corruption into a wider perspective, one should understand that reforms initiated in 2009 have had some positive effect. Although the "success story" of Moldova was hyperbolized, it had certain ground to be considered. It was not only about the Moldova's drive for reforms, it was also about the regress taking place in the other countries of the EaP. The Index of European Integration of

1. Litra, L. 'Moldova: A Sinuous Road to Europe', in "REGIONAL REPERCUSSIONS OF THE UKRAINE CRISIS, Challenges for the Six Eastern Partnership Countries", *Europe Policy Paper 3/2014*, German Marshall Fund of the United States.

EaP states<sup>2</sup> ranks Moldova on the first place fourth year in the row, despite a clear stagnation in 2014. The good results in comparison of other EaP states are a consequence, on the one hand, of the inefficiency of other countries, on the other hand, of some of the reforms carried out in Moldova. Most notable progress was recorded in the area of Freedom, Security and Justice.

Since the end of April 2014, Moldovans holding the biometric passports can travel to the EU without visa, first and only country out of the Commonwealth of Independent States (CIS). The Action Plan on Visa Liberalization was received after Ukraine (December 2010) in February 2011 and since then Moldova adopted dozens of laws that initiated the modernization of the state. Such laws as anti-discrimination or fighting corruption would have not been possible without the visa liberalization process. Many of the laws are still poorly or insufficiently implemented, especially when it comes to corruption. However, an institutional setting is in place and may function properly should there be a political will.

The visa liberalization did not have any negative impact on the EU and compared with the experience of the Balkan countries in terms, for instance, of asylum abuse, the visa liberalization worked perfectly with Moldova.<sup>3</sup> Almost half a million of Moldovans traveled to EU without visa in the first year, which is about 15% of the population. Moreover, 77.000 people from Transnistria have a biometric passport, of which 28.000 acquired it in the last year that is fostering the positive image of EU and Moldova and is creating additional bridges for a better community dialogue.

The reforms carried out since 2009 had an impact on the ongoing political life. Under the approximation to the EU, the incumbent parties had no longer enough room for maneuver; therefore, they had to either start real implementation of reforms in problematic areas, either to put on hold the process of European integration. The choice of the ruling political elite was the second one – to hold up the European integration process. The rationale of politics overtaking reform was to take care of the internal politics and articulate the oligarchs' interests.<sup>4</sup>

The November 2014 parliamentary elections brought some changes in the representation in the parliament, having a more powerful overtly pro-Russian presence (Party of Socialists) and moderate Russia's "understanders" party of Communists, which is in decline. The elections took place under a high polarization in the society along the pro-EU and pro-Russian lines,

being exacerbated by dubious deregistration of the electoral competitor (controversial pro-Russian politician Renato Usatî) few days ahead of elections for allegedly being financed from Russia, which is prohibited by the Moldovan legislation. The local elections, held in June 2015, broadly replicated the results of the parliamentary elections and made the opposition become stronger in many regions of Moldova.

The change in alliance' policy was announced shortly after the new parliament became operational. The faction leaders of the governing parties have told that Moldova is no longer aiming to submit the application for EU membership due to "certain signs" received from the EU officials. Although this might be good news for the EU, it is however bad news for Moldova. The rationale of lower level of ambition in relations with the EU is threefold. First of all, the inefficiency in certain reforms and the inability to conduct a serious and credible investigation in the banking corruption scandal is making difficult any proposal to advance relations. Second, the center left parties, which in Moldova are usually anti-EU or euro-skeptic, need to be accommodated if the center-right coalition would fail. Third, it was aiming to appear in front of Russia as more neutral in foreign policy so that would potentially decrease the pressure of Russia on Moldova.<sup>5</sup> But most importantly, a willing for a greater integration with the EU would significantly reduce the room of maneuver of the Moldovan ruling elite.

## Since the ruling political elite appeared highly corrupted and given that it associates itself with the EU, the image of the Union in Moldova has seriously suffered.

Since the latter appeared highly corrupted and it associated itself with the EU, the image of the Union in Moldova has seriously suffered. If in 2007-2008 the support for European integration was over 70%, now this decreased to 32%, while the support for Customs Union with Russia rose to 50%.<sup>6</sup> The loss of EU image in Moldova is not only the result of mismanagement, corruption of the political elite and Russian propaganda. The indulgence of the EU played an important role as well. The EU has been too tolerant to Machiavellian politics in Moldova and often preferred to overlook certain issues or to trust too much certain politicians.

It seems that the EU is learning on its mistakes and is openly articulating a disagreement regarding the regress of Moldovan reforms. The EU interventions have to be a sort of political acrobatics since their aim is to keep Moldova on track of reforms and not reduce the contacts to minimum. However, it would be very difficult for Brussels to be convincing enough without punitive measures. Most likely, the appropriate tool to reinforce its cooperation would be to cut or freeze the EU funding in areas in which Moldovan government does not

2. *European Integration Index 2014 for Eastern Partnership Countries*, Ed. Jeff Lovit, Eastern Partnership Civil Society Forum, Renaissance Foundation, Open Society Foundation, PASOS

<http://www.eap-index.eu/sites/default/files/EaP%20Index%202014.pdf>

3. Benedyczak, Jakub; Litra, Leonid, et al. *Moldova's success story: The visa-free regime with the EU one year on*, Batory Foundation, Institute of World Policy, Warsaw/Kyiv, May 2015, <http://www.batory.org.pl/upload/files/Programy%20operacyjne/Otwarta%20Europa/Moldova%20success%20story%20-%20policy%20paper%20-%20SFB%20IWP.pdf>

4. Ciurea, Cornel. "Moldova after the elections: politics overtakes reform". *ECFR Commentary*, [http://www.ecfr.eu/article/commentary\\_moldova\\_after\\_the\\_elections\\_politics\\_overtakes\\_reform311259](http://www.ecfr.eu/article/commentary_moldova_after_the_elections_politics_overtakes_reform311259)

5. Litra, Leonid. "In Moldova, the process of European integration is no longer aiming membership". *Moldova's Foreign Policy Statewatch*, Issue 84, Institute for Development and Social Initiatives "Viitorul", April 2015.

6. *Barometer of Public Opinion*, 2007 and 2015. Institute for Public Policy, Chisinau, Moldova. [www.ipp.md](http://www.ipp.md)

deliver, like it happened with the next tranche of support for reform of judiciary that amounted at EUR 15 million.

## The oligarchic infighting

Moldova is experiencing a political turmoil for almost one year. Since the November 2014 parliamentary elections, three governments have resigned or have been sacked. The last government headed by Valeriu Strelet was dismissed in October 2015 after a no confidence vote from the parliament, officially, for reasons of corruption.

The political and economic crisis was generated first of all by the infighting between the informal leader of Democratic Party, Vlad Plahotniuc, and his opponent, the until recently leader of Liberal Democratic Party, Vlad Filat. The fight between the two has expanded at the level of other institutions. Despite this fight, the two parties, along with the Liberal Party, broadly speaking, have been in power since 2009, forming various coalitions. While in declared opposition are the Communist party and the Socialist party which have 45 mandates out of 101.

The corruption scandal of the state-owned bank “Banca de Economii” and two other private banks marked a turning point in the conflict between Plahotniuc and Filat. From the

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very beginning it was clear that stealing about 15% of GDP of Moldova was not possible without the involvement or support of high-ranked officials and state institutions. In light of the 1 billion affair, no serious investigations took place. The only structured public information was the report of the well-known in Ukraine Kroll company. Although the report emphasized the role of the controversial businessman, Ilan Shor, who de facto managed the process of money extraction, it remained unclear who was offering the political back-up.

As a result of the bank fraud, the economic situation in Moldova worsened. The devaluation of the Moldovan currency have generated higher prices of energy resources and thus higher prices for utilities and imported products, which in turn increased the poverty of Moldovans. Moreover, according to estimations of a former minister of Finances, Moldova is running out of money and will not be able to pay salaries by the beginning of December. That is why it urgently needs the IMF agreement and support. Certainly, in the current circumstances the IMF imposed cuts would be like a surgery without anesthesia, but the government needs IMF agreement also for non-monetary reasons. For instance, after it became clear that the government is not serious about investigating the bank fraud, the EU and other development partners of Moldova have suspended their budgetary support to Moldova, which represents an important chunk of the budget, especially in the current crisis. The EU and other do-

nors mentioned that it would unfreeze the funding once the government will have an agreement with the IMF. The only problem is that one of the conditions of the IMF is a credible international investigation of the bank fraud. Therefore, Moldova was put into an undeclared financial isolation. The help came from Romania which agreed to offer \$150 million loan just not to allow, as they say, Moldova falling into the hands of Russia. Certainly, this support is much appreciated and needed, but others think that it spoiled to some extent the efforts of the EU to reform the current system. From the geopolitical logic, some agree with the actions of Romania, while from the reformist logic this is not the best solution.

The inactivity of the law-enforcement agencies in investigating and taking serious steps for discovering the bank fraud and the worsening economic situation have generated dissatisfaction in the society. Against this background, the protests have started in spring 2015 and by October 2015 have significantly grown. The protest mood existed already among the society but it was further mobilized by the civic platform “Dignity and Truth”. Although the platform has a discourse that unites many people its leadership and actions proved disappointing. First of all, aside from civil society activists in the platform’ leadership, there are right wing politicians with suspected links to opposition oligarchic groups. Second, despite the fact that one of the main messages of the platform was to find and return the stolen billion, they have many times criticized Vlad Plahotniuc but avoided sometimes to mention Vlad Filat.

The name of Vlad Filat is very important since he is considered the main suspect in the banking scandal. In the mid October, in a self-denunciation of Ilan Shor who testified that he paid \$250 million to Vlad Filat who mastered the 1\$ billion theft, the latter was arrested. The general prosecutor presented suspicions and the parliament stripped Filat of his immunity. The investigation is ongoing and the guilt of Filat has to be proved still, but the arguments presented are very serious. In the meantime, his rival, Vlad Plahotniuc, has suspended his party activity and went in the shadow.

The issue of the fight between the two oligarchs requires more discussion since their activity impacted the overall situation in Moldova. Since the regime change in 2009, the oligarchs have been always in power. The division of the ministerial portfolios was always taking place through an algorithm between the two parties and others who joined the coalition. However, aside from the ministries, other important institutions were also subject to political ownership. For instance, Vlad Filat chose basically “money” since the Fiscal office and the Customs were under the control of the Liberal Democrats. On the contrary, Vlad Plahotniuc chose the “law-enforcement agencies” - Prosecutor office and the National Anticorruption Center. No matter what happened, certain reforms were implemented in Moldova, even having an oligarchic control over the system. The problem is that the EU has long-time considered Filat a good oligarch –especially when he was the prime minister– and Vlad Plahotniuc a bad one. These borders are now erased and both are considered sim-

ply oligarchs and the change of the EU position is also seen by the lack of reaction to Filat's arrest.

The arrest of the former prime minister is a novelty for Moldova. And the arrest of an active political player always carries political implications. However, it is too early to judge to what extent the Filat's detention is a selective justice case. The real assessment of how genuine is the fight against corruption will be given if other arrests follow. For instance, the National Bank, the National Anticorruption Center should have been informed about the fraud from the banking system, however, no charges have been put forward to the heads of these institutions. Filat's arrest, although needed, should not be necessarily considered an efficient fight against corruption, since his detention comes as a result of Shor's self-denunciation rather than as a result of the work of anti-corruption bodies, despite ample evidence for them to on.

The sacked prime minister, Valeriu Strelet, faced a no confidence vote on the grounds of corruption, as his party colleague Vlad Filat two years ago. Therefore, as the Constitutional Court ruled the decision that they are not allowed running for office again should they be dismissed for corruption, it is clear that Moldova will have a new prime minister and a new government that will be difficult to form given the infighting and the personal animosities between various political leaders.

The chances of a Russian-loyal government are slim, since the party controlled by Plahotniuc announced that it would support the remaking of a pro-European coalition.

The new coalition will likely consist of the Democratic Party of Vlad Plahotniuc, Liberal Party and the group of non-affiliated MPs headed by the former prime minister Iurie Leanca, who left the party of Filat in the beginning of this year. Although the scenario is bad for most of the parties, no party is interested in early elections. Albeit reluctantly because of the misdeeds and loss of trust in Moldovan authorities, the EU as well is forced to support the current scenario for the sake of stability.

Early elections would significantly decrease the role of declared pro-European parties as, according to latest opinion polls, these would barely make it into the parliament.<sup>7</sup> Since the Liberal Democratic party is going to have a modest result, especially after the arrest of Vlad Filat, it is therefore much better to stay in alliance even on bad conditions. The same goes for the opposition parties that are intermittently mentioning the need for early elections. The Communist party has lost its drive and a significant part of its credibility. While the Socialist party (the biggest one in Moldova) is likely to lose its votes in favor of Renato Ustai – a controversial pro-Russian politician who is on the rise after getting a very good result at the local elections.

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7. "PLDM, pe ultima poziție într-un sondaj IRI! Ce partide ar intra în Parlament dacă duminică ar avea loc alegeri". *Realitatea.md*. 10 November 2015  
[http://www.realitatea.md/pldm--pe-ultima-pozitie-intr-un-sondaj-iri--ce-partide-ar-intra-in-parlament-daca-duminica-ar-avea-loc-alegeri\\_29593.html](http://www.realitatea.md/pldm--pe-ultima-pozitie-intr-un-sondaj-iri--ce-partide-ar-intra-in-parlament-daca-duminica-ar-avea-loc-alegeri_29593.html)

## Conclusions and recommendations

Broadly speaking, the situation in Moldova became so problematic that people are less interested in the dichotomy between the pro-European and the pro-Russian actors, which marked the political debate for almost two decades. At the same time, the implementation of the Association Agreement and other EU integration-related reforms have been put on a secondary track. Despite the efforts at the technical level, the reforms won't be possible until the political crisis will be over. At the same time there is a ray of hope for Moldova. Despite being still polarized along geopolitical lines and historical legacies, the society has the potential to find common ground for cooperation. The protest against corruption that took place throughout the year was a clear demonstration that a certain degree of mobilization against illegalities is possible and that the consolidation of the civic movement could be crosscutting along the issues affecting people's life more than geopolitics.

It is unlikely that the current politicians could solve the existing problems. Corrupted people could not efficiently fight against corruption. The opposition is not cleaner than the incumbent parties and the system could be fixed only by new parties and leaders that are capable to take decisions without being influenced. Only then, the EU integration process will get back on the right track and Moldova has chances to get rid of the captured state in which it founds itself.

## Despite being still polarized along geopolitical lines and historical legacies, the society has the potential to find common ground for cooperation.

The example of Moldova and other countries from the EaP demonstrates that the EU's ENP revision is a timely process, since the "more for more" approach did not bring the expected results. The difficulties in Moldova, where the institutions are inefficient in front of the oligarchs, demonstrate that business and politics are deeply entangled and the state authority is incapable of changing the system. The "more for more" policy has to be complemented with the "back to basics" approach that would put more focus on the institution building; otherwise the difficulties in implementing reforms will remain. Also, the EU transformative ambition should be reflected in the new ENP and not only stabilization as it was suggested in the November 2015 communication of the European Commission.

Moldova's fading "success story" is an illustration that the European integration process is not irreversible. Moreover, reforms could roll-back if they affect the interest of the oligarchs. But the EU is needed now more than ever since Chisinau is facing one internal challenge – corruption; and one external challenge – Russian assertive policy in Moldova. The tools that EU poses -financial support as well as political weight- can help Moldova get back on track of reforms.

The relations with the EU and West as well as the relations with Russia will depend on the evolution of the reform process in Moldova. The reforms refer precisely to the depoliticization and the return to the State control of the law-enforcement agencies - the institutions that are collecting money

for the budget. Equally important is the finalization of the investigation on the \$1 billion theft as well as fight against corruption at all levels and regardless of political color. Aside from negative effects of the crisis and time lost of the reform process, one thing is certain: the crisis will be beneficial for Moldova since finally the problems will have to be truly addressed; otherwise a more radical protest is imminent.