



STRATEGIC FILE

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Moldova's European Integration: On Sick Leave?

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Moldova's European integration has run out of steam. If a year ago discussion in Chisinau centred on Moldova's possible submission of an EU membership application in 2015, today such perspectives are not even mentioned. A number of corruption scandals and the formation of a weak minority government have radically turned the tide in terms of political stability, economic development and reform-oriented European policy. Keeping in mind Chisinau's demonstrated capabilities of quick progress over the past years, rather than retiring Moldova's integration prospects, the EU should continue to back the country after the June local elections to put an end to this ailing period.

Known as one of the best pupils of the Eastern Partnership between 2009 and 2014, Moldova has, over the last six months, failed to live up to self-ascribed ambitious goal to become one day full member of the EU. Prevarication on crucial reforms, along with partially self-inflicted economic wounds, pushed Moldova further from the long-term, coveted prize of membership. Moldova's heavy underperformance exposed the gap between words and deeds, undermining the credibility of its authorities. Moreover, Moldova's failure to improve its resilience through the implementation of reforms widened the scope of Russia's influence on domestic politics and economics. After harvesting the most attractive fruits of the Eastern Partnership (for example, the visa free regime), Moldova hit the brakes on European integration instead of speeding up the process. Immersed in political squabbles and corruption scandals, the country is poised to continue this downward trend. What looked initially as Moldova's day off from reforms might turn into a long period of sick leave.

Bad Politics

Despite an anaemic and dull campaign by the pro-European parties in the November 2014 parliamentary election, the Moldovan electorate gave them another chance to create a coalition. The Liberal Democrats (PLDM), Democrats (PD) and Liberals (PL) together secured 55 out of 101 available seats in parliament, enough to keep them in power. At the same time, the electorate signalled growing fatigue with the governing parties. Corruption and the slow pace of reforms were among a few reasons for the governing coalition's lower standing. In absolute terms, support for major pro-European parties declined from around 896,000 votes in 2010 to 729,000 votes in 2014. The Liberal Democrats recorded the biggest drop in support, from slightly more than half million vote in 2010 to 322,000 in 2014. The election results also revealed the great potential of protest votes, and a demand for fresh faces in politics. Therefore, the Socialists (PSRM), who broke from Communist Party (PCRM) and benefited from Russia's support (for example, media coverage, photo opportunities, and funds), came first (with 20%), absorbing part of the protest vote. Another "rising political star" was Renato Usatii (a Moldovan businessman allegedly linked to

organised crime in Russia¹), whose campaign was a mixture of populism and anti-corruption discourse. Nevertheless, the little-known party Motherland, which he joined, was excluded from the race at the last minute for funding its campaign illegally from external sources, a move that partially augmented PSRM's electoral score.

With a weaker mandate, and facing increasing challenges from parts of the opposition, the pro-European parties had to negotiate a new coalition agreement swiftly, and push for urgent measures in critical sectors that would have a palpable beneficial impact on citizens.² These measures should have helped to consolidate power and boost support ahead of local elections scheduled for June 2015. Instead, parties became embroiled in protracted talks amid rapid devaluation of the national currency (from January to mid-February, the Moldovan leu lost 26% against the euro). In this context, society largely perceived the coalition's behaviour as geared towards securing the private interests of the ruling elites, rather than as an effort to craft an urgent response in order to stabilise the financial situation and guarantee further reforms. The negotiations ultimately failed, with PD and PLDM announcing that they will form a minority government with the support of the declining PCRM (-21%), a party that lost half of its mandates and thus was happy to avoid early elections. This decision inflicted another blow to the reputations of PD and PLDM, regarded increasingly by the public as pro-European in name only, and set in motion a process that drained Moldova's political will to conduct reforms.

The installation of a minority government, and co-option of PCRM's tacit support in February 2015, had several negative implications for Moldovan politics. Firstly, PD and PLDM politicians and technocrats with domestic and external credibility were marginalised or excluded from government (the education minister is a rare exception) and top positions in parliament. A side effect of this was that useful, lines of communication on high level with European capitals, most notably Berlin, were severed. At the same time, some international donors adopted a "wait and see strategy" (for instance, Ministry of Interior projects financed by Sweden were put on ice). Moreover, the "clean up" coincided with the prosecution or sentencing of former ministers who had shown a taste for reforms (for example, the finance and interior ministers). This sent a signal that competence and reforms are, at best, not rewarded. Secondly, PCRM won time to lick its wounds and prepare for the local elections without making the necessary generational change at the top of the party. PCRM also gained disproportionate leverage, which contributed to the exclusion from the list of most of the reform-minded ministers (for example, the minister of justice) and the slowing-down of the law-making process related to EU integration (such as the law on the prosecutor's office). Thirdly, PLDM ceased to be the engine of EU integration in Moldova. Two heavy weights left PLDM and formed a rival political project called the European Peoples' Party of Moldova (EPPM), which quickly gained popularity among disenchanted pro-European voters (in particular in Chisinau). PLDM incurred heavy reputational losses after nominating a prime minister whose integrity and professionalism was questioned immediately by civil society and the mass media.³ It further poisoned the atmosphere inside party. Instead of pushing for reforms, PLDM was preoccupied with how to deflect attacks on the weak prime minister, and, later, how to disassociate from him.

Floundering Economy

Bad politics overlapped with mounting economic problems. Although Moldova's economy grew by an impressive 4.6% in 2014, signs of the gathering economic storm were visible before the parliamentary elections. International financial institutions projected negative economic growth (-2%) for Moldova in 2015. Moldova partially imported its problems, as Russia and Ukraine, its second and third largest trade partners, dived into economic crisis. Russia's tariff barriers, introduced after Moldova signed the Association Agreement with the EU in 2014, and the wine embargo that came into force in 2013, also feed into the worsening economic situation. Thus, between January and November 2014, exports to Russia and

¹ See journalistic investigation: "Kak emissar 'solntsevskoi bratvy' Renat Usatyy stal psevdometsetatom i ofitsialnym partnerom RZhD", *Prestupnaya Rossia*, 23 October 2013, <http://crimerussia.ru/organizedcrime/65877-kak-emissar-solntsevskoj-bratvy-renat-usatyy-stal-psevdometsetatom-i-ofitsialnym-partnerom-rzhd>.

² See: S. Secrieru, A. Sobják, "Reforms Wanted: A To-Do List for a Future Moldovan Government," *PISM Strategic File*, no. 26 (62), December 2014.

³ See: A. Bolfa, V. Moşneag, "CV-ul necenzurat al premierului," *Ziarul de Gardă*, 5 March 2015, www.zdg.md/editia-print/investigatii/cv-ul-necenzurat-al-premierului.

Ukraine declined by 31% and 20% respectively. In first quarter of 2015, exports fell even more dramatically, by 67% to Ukraine and by almost 50% to Russia. Remittances also dropped in the last quarter of 2014, by 20%, and by another 30% from January to February 2015. Like other currencies in the post-Soviet region, the Moldovan leu lost ground as the Russian rouble sunk against main international currencies. In 2014, the leu lost 20% of its value against the U.S. dollar.

But, as the Russian currency stabilised, the leu continued its precipitous fall until February 2015, forcing the National Bank to spend \$404 million in the first quarter of the year in order to calm down the market (diminishing available reserves from \$2.15 billion at the end of 2014, to \$1.75 billion in March 2015). It became obvious that, besides importing problems, Moldova's economic troubles also had domestic origins. The banking sector was one of the trouble makers in Moldova, shattered by scandals around attempts at hostile takeovers, non-transparent ownership and money laundering. However, in 2015 the sector surpassed even the most pessimistic expectations. In late 2014, Moldova's Central Bank had placed three troubled banks (Banca de Economii, Banca Sociala and Unibank) under external management and, in order to avoid their bankruptcy, provided emergency loans (around \$870 million). By the end of March 2015, the banks should have repaid the money, but this did not happen. A few days before the parliamentary election, these banks provided loans totalling almost \$1 billion. Apparently, money was transferred to foreign companies registered in the UK and Hong Kong, with banks from Latvia and Russia also involved in the scheme.⁴ The fraud caused an immense financial hole (almost 15% of GDP) in Moldova's banking system. Despite the murky activities that were uncovered, the National Bank continued its monthly support for these banks, providing liquidity despite a public debate as to whether they should go into liquidation. As a precautionary measure, it put the three largest commercial banks in Moldova (Agroindbank, Moldindconbank and Victoriabank) under special supervision. Observing the deteriorating financial situation in Moldova, donors called on the government to shut down non-performing banks and conclude a new agreement with the IMF, which would guarantee budget discipline and external oversight.

Pro Forma Reforms

Such an economic context, coupled with the dash from one electoral campaign straight into the next, generated circumstances that were hardly conducive to reforms. In a bid to put pressure on the new government, Moldova's external development partners published an 80-page set of sector by sector recommendations in March.⁵ The move had the sense of tacit ultimatum, suggesting that the continued flow of donor assistance was strictly contingent on pursuing reforms further. Yet the 100 day deadline set for the short-term recommendations passed, with the government at best miming reforms.

If there has been any serious discussion on reforms since the November elections, it has been either related to the upcoming local ballots or to governance issues, the latter being the major tipping point from the perspective of Moldova's external partners. Although the past five years brought some tangible results in the fight against corruption,⁶ and Moldova's position increased in most international indexes, corruption retains a systemic character. Even more worrying, however, is the primacy of the political players' private interests over public ones, which results in inaction or a selective approach by anti-corruption bodies when tackling concrete cases of corruption. This was well demonstrated in the large scale corruption scandals of the past few years (for example, the non-transparent concession of Chisinau airport, the banking scandal, raider attacks on banks and international money laundering schemes with the involvement of judges), all of which severely discredit the government's nominal dedication to fighting corruption.

Among the few tangible results of the past six months was the elaboration of a set of draft laws to reform the National Integrity Commission, responsible for the control of incomes and detecting conflicts of interest and other incompatibilities in public administration. The institution was established in 2012,

⁴ "Raportul strict secret al comisiei de anchetă BEM," *Deschide.md*, 24 March 2015, <http://deschide.md/ro/news/politic/12311/EXCLUSIV--%28DOC%29-Raportul-STRICT-SECRET-al-comisiei-de-anchet%C4%83-BEM.htm>.

⁵ See: "Briefing Book from Development Partners of Moldova," January 2015, www.un.md/viewnews/200.

⁶ Among the most notable successes are better collaboration between civil society and the anti-corruption bodies, intensified reporting of corruption by the public via the National Anti-corruption Centre hotline, a considerably increased number of cases opened by anti-corruption bodies (including cases of high level corruption), faster prosecutions in corruption cases, severed sanctioning of corruption, the first cases of judges being sentenced to jail, and more.

although it appeared to have purposefully been granted too weak competences and too scarce resources to perform its duties. Its competences are planned to be extended, for example, to applying sanctions and passing cases on to legal courts. A draft law also envisages combining the declaration of income and assets with the declaration of personal interests and regulating their submission. The declarations can be submitted online, in an electronic system created with the support of the World Bank. However, the draft laws are criticised by civil society as lacking financial planning for the introduced modifications, as well as for contradictions in the responsibilities of managing the electronic system of declarations.⁷ Eventually the legislative proposal did not even reach the debate stage in parliament, as the government did not vote for it.

The most corrupt sector, as perceived by 80% of the public, is the justice system.⁸ Although reform of the judiciary was launched in 2011, procrastination of the depoliticisation of the public prosecution⁹ remains its Achilles heel. In 2014, a draft prosecution service law was elaborated and sent to the Venice Commission for review. It foresees the demilitarisation of this institution, the consolidation of the competences of the Prosecutor's Office regarding criminal prosecution and, most importantly, new procedures for the selection and nomination of a General Prosecutor.¹⁰ For this, however, the constitution needs to be modified. The fact that the communists decided not to support the legislative project clearly illustrated the vulnerabilities of the minority government. After heated debates in parliament, the first reading of the draft law was only passed in May 2015.

Another urgent issue ahead of the local elections was redesigning political party and campaign funding, as a lack of transparency in this regard exposes decision-making to control by interest groups. On 9 April, legal amendments to six laws pertaining to campaign finance were adopted. Among the major novelties are the introduction of state funding for political parties, the prohibition of party financing from abroad, and the criminalisation of campaign financing irregularities. Although sanctions for illicit use of public funding are foreseen, the exact financing mechanisms from donations, and their verification, are not defined. Moreover, the content of the amendments has been diluted significantly compared to the original version adopted at a first reading in July 2014. Most importantly, the initially proposed cap of 20 average monthly salaries for donations by individuals and 40 by legal entities was augmented tenfold (to 200 and 400, respectively). As a result, political parties will remain dependent on donations from a small number of sources, and will thus be exposed to continued "oligarchisation". Even if some of the new provisions would help campaign funding transparency, their enforcement also leaves much to be desired. For instance, the Central Election Commission does not have sufficient human resources to monitor campaign financing for the local elections, as required by the new amendments.¹¹

The media is another area in urgent need of reform, and put to the test by the local elections. The sector remains much politicised, with a high level of concentration and lack of transparency of ownership, and partisan reporting. Political influence also remains visible in the appointment of members of the Audiovisual Coordination Council (CCA) and the Council of Observers of the public media. The media coverage of local elections clearly shows these deficiencies. On 27 May, the CCA warned six private channels for biased coverage, and suspended the rebroadcasting of Russia 24 TV channel for using propaganda methods,¹² particularly on reports about Ukraine, Transnistria and Gagauzia. The only concrete measure taken in this sphere was the adoption by parliament of the law on transparency of media ownership, on 5 March (passed at a first reading in July 2014). However, without the amendment prohibiting offshore companies from owning media, the new law will fail to improve the core problems of the situation.

⁷ Centrul de Analiză și Prevenire a Corupției, "Raport de expertiză la proiectul Legii privind declararea averii, intereselor personale, conflictele de interese și cadourile," 2 March 2015, www.capc.md/ro/expertise/avize/nr-606.html.

⁸ Transparency International, "Global Corruption Barometer 2013," www.transparency.org/gcb2013/country/?country=moldova.

⁹ European Commission, "Implementation of the European Neighbourhood Policy in the Republic of Moldova Progress in 2014 and recommendations for actions," 25 March 2015, Brussels, http://eeas.europa.eu/enp/pdf/2015/repulic-of-moldova-enp-report-2015_en.pdf.

¹⁰ The Prosecutor General is currently nominated by parliament, acting on the proposal of the speaker. The new law would give this job to the president, who would act upon a proposal by a council of prosecutors.

¹¹ OSCE Office for Democratic Institutions and Human Rights, "Limited Election Observation Mission Republic of Moldova Local Elections, 14 June 2015. Interim Report 14–28 May," 1 June 2015, p. 6, www.osce.org/odihr/elections/moldova/160886?download=true.

¹² Retransmission of Russia 24 was first suspended in July 2014, for six months.

In the face of manipulation by external propaganda, attempts were also made to improve information security. A draft law package was proposed to amend the Audiovisual Code and the Law on Freedom of Expression. Among the most significant provisions is increasing the proportion of programmes (news and analytical-informational content) in Romanian to 100%, and that of domestic production to 80%. Rebroadcasting external content will be restricted to those originating from states that have ratified the European Convention on Transfrontier Television (EU Member States and the United States, but not Russia). The draft laws were sent to the Venice Commission for opinion. However, civil society¹³ and the OSCE¹⁴ have already signalled that the amendments would disadvantage independent media outlets, and thus potentially restrict the freedom of the media and of expression. As a matter of fact, the legislative proposal is seen as an attempt by the governing parties, particularly PD, to further monopolise the media market under the cover of countering Russian propaganda.

What Lies Ahead after the Local Elections?

Moldova is heading towards political uncertainty in a less than benign economic environment. Local elections were preceded by various protests between March and June, with supporters ranging from political opposition cultivated by Russia, to farmers, pro-unionists (with Romania), civic activists and ordinary, angry voters. This cumulated in social pressure that caused indirectly the collapse of the minority government. Without consulting PLDM and PD, Moldova's prime minister issued an open letter to country's president on June 6, in which he asked for the resignation of Prosecutor General, and the heads of the National Bank and National Commission for Financial Markets. PLDM and PD distanced themselves from prime minister's position. On 11 June, the prime minister was interrogated by prosecutors (based on an earlier police investigation) in connection with the probable falsification of his high school diploma. Unable to push for radical reforms, and being prosecuted for alleged wrong-doings in the past, he announced his resignation on 12 June. In such a context, the first round of local elections took place on 14 June. Although a clear picture concerning number of mayors each party will secure will only emerge after the second round (28 June), some provisional conclusions can be drawn.

In comparison to the local elections in 2011, turnout dropped by 11%, which can be interpreted as sign of passive dissatisfaction. On the level of local councils in the regions (*raioane*) and in municipalities, however, there are signs of pro-active disappointment. Compared to results in 2011, PLDM declined from 27% to 22%, PD improved by only 1%, and PL slipped from 12% to 8%. The results also confirm the rapidly melting support for the ageing leadership of PCRM, which saw its share of the vote drop from 39% to 11%. The big winners of PCRM's decline are new entries, such as PSRM (12%), and Renato Usatii with his new political formation "Our Party" (8%). It is noteworthy that EPPM secured almost 6%, which is a good result for a political project born just a few months ago.¹⁵

In the aftermath of vote, PLDM, which hardly can be happy about the outcome, called for the creation of pro-European majorities on local and national levels. PL refused to consider this option on national level until after the final battle for Chisinau, where its candidate has strong chance of winning office for a third consecutive term. Victory in Chisinau will reinforce PL's negotiating position. Ironically, though, this might play against the resurrection of a pro-European majority in parliament, as too many demands from PL will encourage PD and PLDM to opt for a minority government again. Desperate to avoid early elections after defeat at the local level, PCRM is likely to get behind a PD-PLDM government. At the same time, PSRM will act as a revisionist force, aiming to upset the formation of a new government and trigger early elections. No matter which governing coalition emerges after 28 June, all political forces will be less focused on reforms and more consumed by political scheming ahead of parliament's election of a president in 2016. As

¹³ Asociația Presei Independente, "Memoriu privind libertatea presei în Republica Moldova. 3 mai 2014 – 3 mai 2015," www.api.md/news/view/ro-memoriu-privind-libertatea-presei-in-republica-moldova-922.

¹⁴ OSCE, "Proposed amendments to legislation in Moldova could endanger free expression and free media, OSCE Representative says," 22 April 2015, Vienna, www.osce.org/fom/152491.

¹⁵ "CEC anunță repartizarea voturilor la funcția de consilier după apartenența politică," *CEC.md*, 16 June 2015, www.cec.md/index.php?pag=news&id=1042&rid=13207&l=ro.

the constitutional change necessary to revise the procedure for electing the president has not been made, despite strong calls from external partners, 2016 could present the next major political deadlock.¹⁶

Prescriptions for Recovery

There is little probability that reforms in Moldova will regain genuine impetus any time soon. As a consequence, the EU's attention is likely to ebb still further. Yet the current political and economic tendencies must not downplay the fruits of the past year's diligence and results. Since 2009, Moldova's state structures and civil society have undergone a significant Europeanisation process, which yielded valuable skills and expertise. In sectoral and technical cooperation with Brussels, Moldova is still among the most active and responsible Eastern Partnership countries. These achievements should not be allowed to erode, and, rather than winding down, the EU should step up its support of Moldova's modernisation. Such support should include a mixture of technical, financial and political measures.

- *Potent financial conditionality:*

Given that financial assistance is the single most significant means of coercion on the Moldovan government (EU budget support makes up between 4% and 5% of Moldova's GDP), the funds allocated for the implementation of the AA should be used more wisely. To this end, monitoring should rely on more precise and flexible benchmarks. Conditionality should overcome the technical obsolescence of legislative approximation and focus on the implementation of reforms, including monitoring the performance of institutions reformed with EU assistance. Stricter sanctioning mechanisms should be devised, and, in cases of breaches, funds should be redirected and spent in the form of tenders and grants. As Moldova will require IMF financial assistance, the EU, through its Member States (on the IMF Executive Board) should insist on the liquidation of three insolvent banks as a condition for providing financial help. Attempts to backtrack on this commitment (for example, re-nationalisation or recapitalisation) should not be tolerated, and conditions should be strictly enforced.

- *Goal-oriented political pressure:*

Along with technical conditionality, the EU should also bring place more emphasis on the potential of political pressure. For instance, to successfully fight corruption in the judiciary, the EU's expectations need to go beyond the formal implementation of reform measures and make the fair prosecution and sanctioning of judges involved in corruption a political condition. In the light of the banking scandal, the EU could push the government to form a distinct Financial Intelligence Service, and provide support in building the institution. At the same time, it should apply pressure for the full investigation and punishment of those responsible for inaction, as well as for criminal action in the banking scandal. Finally, the EU should further extend its High Level Policy Advice Mission to Moldova at the end of 2015, and keep advisers in the most critical sectors.

- *Consistent communication:*

The EU should continue an intense communication policy, beyond the local elections, on the benefits of EU integration, in order to keep the government accountable and the public supportive of reforms. This policy should be pursued on three levels, through continued series of high-level visits, behind the scenes diplomacy, and public diplomacy (also beyond the capital). It should also build comprehensive support for reforms by balancing the involvement of various players, not only those who are obvious (to civil society representatives), but also others, such as trade unions, businesses, and MPs. The EU should pay particular attention to the advent of the civic platform that is behind anti-corruption protests in Chisinau. It should

¹⁶ According to the constitution, parliament can approve a head of state with no less than 60% of votes, a requirement that could easily result in political impasse. After a series of failures to elect a president, Moldova had an acting president for more than 900 days between 2009 and 2012.

find ways to support grass roots activism so that this is likely to produce not only a more self-sustainable civil society, but also potential national leaders.

- *Reinvented incentives:*

Since visa liberalisation, Moldovan citizens no longer have any future tangible benefits in sight from association with the EU. Therefore, new kinds of incentives should be identified. An option worth exploring is the mobility of workers, as this has a low cost for the EU and a potentially high impact on Moldovans' lives. The EU also should contemplate and commission feasibility studies on possible ways to extend the advantages of a free trade area, and upgrade it into a common economic area.