

## Freedom in the World Ratings, 1989-1998

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
<b>Political Rights</b> -	-	-	5	5	5	4	4	3	3
<b>Civil Liberties</b> -	-	-	4	5	5	4	4	4	4
<b>Status</b>	-	-	PF	PF	PF	PF	PF	PF	PF

**Polity:** Transitional

**Economy:** Transitional

**Population:** 4,347,000

**PPP:** \$1,547

**Ethnic Groups:** Moldovan (64 percent), Ukrainian (14 percent), Russian (13 percent), Gagauz (3.5 percent), Bulgarian (2 percent)

**Capital:** Chisinau

### Political Process 3.50/7

**1. When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?** Moldova's first post-Communist parliament was elected on February 27, 1994. International organizations such as the OSCE judged the election to be fair. The centrist Agrarian Democratic Party won an absolute majority in this first election, and ruled cooperatively with the Socialist/Unity Party for the first 18 months of the session. Parties on the right, the Christian Democratic Popular Front and the Peasants and Intellectuals bloc, formed the opposition. On June 26, 1995, President Mircea Snegur resigned from the Agrarian Democratic Party, causing a split in the party and forcing the Agrarians to rely on the Socialists for a majority.

The second parliamentary elections were held on March 22, 1998. As in the first elections, they were held on the basis of proportional representation with party lists. Four parties passed the Five percent threshold for representation. The Party of Moldovan Communists won 30 percent of the popular vote, which translated into 40 seats in the 101-member chamber. The center-right Democratic Convention of Moldova (CDM) won 26 seats. The For a Democratic and Prosperous Moldova Bloc (PMDP), the centrist party most closely associated with President Lucinschi, won 24. The center-right Party of Democratic Forces won 11. The Transdneister authorities prevented some people from voting in the elections and the Helsinki Committee - Moldova noted electoral irregularities.

Despite the Communist victory, the three non-Communist parties formed a coalition called the Alliance for Democracy and Reform in April 1998. Ion Ciubuc was renominated as prime minister. It was agreed that the remaining 13 ministerial positions in the government would be split between the three parties on a 2-2-1 basis with the CDM and PMDP each having two ministers for each one of the Party of Democratic Forces'.

**2. When did presidential elections occur? Were they free and fair?** Moldova's first presidential election took place in December 1991, when President Snegur was elected without opposition.

The second post-independence presidential election took place in November and December 1996. In the first round, held on November 17, 1996, Snegur, running as the candidate of the new Party of Rebirth and Reconciliation, received 39 percent of the vote; Speaker of the Parliament Petru Lucinschi, running as an independent with the support of the left, received 28 percent; Prime Minister Sangheli, nine percent; Communist Party leader Vladimir Voronin, 10 percent; and leader of the Party on Democratic Forces Valeriu Matei, nine percent. There were also four independents in the race. On December 1, 1996, Lucinschi was elected president by a 54-46 percent margin. He took office on January 15, 1997 and will serve a four-year term. International observers judged the presidential election to be free and fair. After the election Lucinschi nominated Ciubuc as the new prime minister but retained most of Snegur's cabinet.

**3. Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?** Moldova's proportional representation electoral system is multiparty-based. There is open competition between the various parties and blocs at all levels of government.

**4. How many parties have been legalized? Are any political parties illegal?** Early on, the Communist Party was banned was relegalized following the February 1994 parliamentary elections. In recent years, the creation of parties and voting blocs has been relatively unrestricted and parties have formed and re-formed.

**5. What proportion of the population belongs to political parties?** Moldovan political organizations are associational. Party identification is fluid and membership is weak. Voters identify more with the personalities and positions of leading political figures than with parties. There is no data available on party membership.

**6. What has been the trend of voter turnout at the municipal, provincial, and national levels in recent years?** The first post-Communist presidential election in 1991 had an 83-percent voter turnout. The 1994 parliamentary election drew 79 percent. Local and municipal elections in 1995 drew lower rates and some local runoffs failed to attract the requisite 50 percent, especially in the cities where voters seemed to tire of repeated elections. Turnout in Gagauzia for the election to determine regional boundaries in March 1995 was 73 percent. The elections for the Bashkan and Popular Assembly in May and June of 1995 drew approximately 70 percent. The first round of the 1996 election drew 68 percent, and the runoff drew 72 percent of eligible voters.

## Civil Society

3.75/7

**1. How many nongovernmental organizations have come into existence since 1986? How many charitable/nonprofit organizations? Are there locally led efforts to increase philanthropy and volunteerism? What proportion of the population is active in private voluntary activity (from polling data)?** There are several hundred registered NGOs in Moldova, most of which are located

in the capital of Chisinau. “Registered” and “active,” however, are not synonymous. Less than 100 of these NGOs could be considered active. Charities, as known in the West, are not well understood in Moldova, however, some do exist, mostly with the support of international sponsors.

**2. What is the legal and regulatory environment for NGOs (i.e. ease of registration, legal rights, government regulation, taxation, procurement and access-to-information issues)? To what extent is NGO activism focused on improving the legal and regulatory environment?** Information not available.

**3. What is the organizational capacity of NGOs? Do management structures clearly delineate authority and responsibility? Is information available on NGO management issues in the native language? Is there a core of experienced practitioners/trainers to serve as consultants or mentors to less developed organizations?** Information not available.

**4. Are NGOs financially viable? What is their tax status? Are they obliged to and do they typically disclose revenue sources? Do government procurement opportunities exist for private, not-for-profit providers of services?** Information not available.

**5. Are there free trade unions? How many workers belong to these unions? Is the number of workers belonging to trade unions growing or decreasing? What is the numerical/proportional membership of farmers’ groups, small business associations, etc.?** Legislation provides for the legal formation of trade unions. Over 90 percent of the workforce belongs to the General Federation of Trade Unions (GFTU), which is the successor to the former Communist unions. The GFTU administers the state social insurance system, which makes it difficult to form alternatives to it. Nevertheless, its constituent unions are assuming more independent powers.

Most farmers are members of the former collective farms, now organized as joint-stock companies. For most of those living on the former collective farms, little has changed but the name of the organization. A large U.S. AID supported project to make agricultural privatization a reality has begun, but it is too early to measure any impact. Private farmers constitute a very small proportion of those on the land. Nevertheless, they are increasingly active and have a voice, though little political clout, through the small National Taranist Party.

Businesses, particularly in Chisinau, are becoming increasingly active. This increased activity may result in the organization of business associations and lobbying groups. However, the development of commercial activity is just beginning.

**6. What forms of interest group participation in politics are legal?** The distinction between interest groups, associations, and political parties is hard to delineate in Moldova. The political process is free and open, so individuals and organizations participate in the political process as they wish.

**7. How is the not-for-profit/NGO sector perceived by the public and government officials? What is the nature of media coverage of NGOs? To what extent do government officials en-**

**gace with NGOs?** Information not available.

## **Independent Media** 3.75/7

**1. Are there legal protections for press freedom?** Press freedom is guaranteed in the constitution and made operational through the Press Law of 1994.

**2. Are there legal penalties for libeling officials? Are there legal penalties for “irresponsible” journalism? Have these laws been enforced to harass journalists?** The constitution disallows “disputing or defaming the State and the people.” These restrictions, however, have not been implemented in law or otherwise enforced. The press law does allow politicians to sue for defamation without distinguishing between their public and private affairs. The suits that have been brought to trial have generally failed.

**3. What proportion of the media is privatized? What are the major private newspapers, television stations, and radio stations?** Three independent news agencies, Infotag, Basapress, and Flux, plus the government-controlled Moldpress, provide material for the traditional media outlets as well as domestic and international e-mail customers. Most political parties publish their own newspapers. Television and radio are largely controlled by the state owned Teleradio-Moldova. Private Catalan TV debuted in 1995, but its transmissions are limited to Chisinau and 40 kilometers around it. Locally owned radio is also growing slowly. There is only one private radio station, which broadcasts religious material out of Chisinau. Nongovernmental sources are providing an increasing share of the information and are limited more by economic factors than by governmental attempts to restrict information. The most popular weekly newspaper is the independent *Saptamina*.

**4. Are the private media financially viable?** As in all the post-Communist states, the media have little experience with business operations and thus, are experiencing start-up difficulties. Political party newspapers are similarly short of both cash and management experience. Advertising support is limited, and papers often lose money by increasing circulation.

A new media group, the Association of Independent Press, was launched in October 1997. Its goal is to help finance private media in Moldova.

**5. Are the media editorially independent? Are the media’s news gathering functions affected by interference from government or private owners?** The news services are independent and provide relatively objective coverage. Many of the papers are published by the political parties and thus express a particular point-of-view. They are, however, free from governmental control. The state-owned papers, *Moldova Suverana* and *Nezavisimaya Moldova*, often acted as participants rather than objective sources in the 1996 presidential election. Both serious challengers, parliamentary speaker Lucinschi and Prime Minister Sangheli, received more favorable coverage from the government-controlled print and broadcast outlets than did the incumbent, President Snegur. For example, in a major scandal, national television broadcast an illegally recorded conversation between two of Snegur’s top aides in an attempt to embarrass the ex-president. Media not controlled by political parties or the state are growing in number but are still relatively few.

In November 1997, two top directors of Teleradio, Adrian Usatii and Dumitru Turcanu, were replaced after months of fighting in parliament. The Moldovan parliament amended the Law on the Electronic Media in December 1997, and Article 7 was changed to regularize parliamentary power of dismissal over the heads of the state television and radio agencies. President Lucinschi, arguing that this violated the constitution, vetoed the amendment. The veto was overturned later that month.

In 1996, Ion Frunza, the deputy head of Catalan TV, was kidnapped by five men in police uniforms. Three journalists for *Mesagerul*, the party newspaper of the Alliance of Democratic Forces, were beaten in January. Two of them were threatened with death if they continued to write about police involvement in a racketeering ring.

**6. Is the distribution system for newspapers privately or governmentally controlled?** Most newspapers are printed by the state printing organization. This system has not inhibited opposition media. The kiosk-based distribution system that is used does not appear to serve any particular political interest.

**7. What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?** Information not available.

**8. What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom*?** The media have become increasingly open and competitive. State interference with opposition media is not a problem, though the state-owned outlets were hardly neutral in the election campaign. Some self-censorship is no doubt present as a result of a 1995 press law which forbids "contesting or defaming the Moldovan people." Freedom House's *Survey of Press Freedom* rated Moldova "Partly Free" from 1992-1998.

#### **Governance and Public Administration** 4.50/7

**1. Is the legislature the effective rule-making institution?** Yes. The constitutional structure provides for divided power, or checks-and-balances system. During Snegur's term, both the government and the parliament were able to thwart various presidential initiatives. The Constitutional Court has limited some presidential attempts to bypass parliamentary and governmental prerogatives. Prior to the 1996 presidential election, the president was often at odds with both the government and the parliament. The Lucinschi presidential victory, together with Prime Minister Sangheli's resignation, will likely result in increased cooperation among the institutions.

**2. Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?** Moldova is organized as a unitary state with power concentrated in the central institutions. The constitution, however, allows "special status" for ethnic minority areas. An agreement for special autonomous status for the Gagauz Yeri region was adopted in January 1995.

The Transdnistrian region declared its independence in December 1995, but is not recognized as an independent state by other countries. So far, it has run its own affairs.

**3. Are subnational officials chosen in free and fair elections?** Local councils are freely elected, with the chairperson selected locally but appointed by the president. Participation in local elections in 1995 was open and fair. Over 27,000 candidates from eight different political parties and 900 independents competed for 2,195 available seats. One mayor, elected in the Gagauz region, was not allowed to take power and the matter is currently under adjudication.

**4. Do legislative bodies actually function?** Legislative bodies do function. The parliament is effectively organized and passes laws. The Gagauz Popular Assembly has also begun to operate as an effective regional legislature. City and local councils are also elected and operate at the grassroots level, but with limited authority because of the strictures of a unitary state.

**5. Do the executive and legislative bodies operate openly and with transparency?** The parliament and the Gagauz Popular Assembly operate openly and publish their materials. The executive functions seem to be relatively accessible to the media. Snegur attempted (unsuccessfully) to remove the minister of defense in 1996 because of alleged corruption, but was blocked by the prime minister and the Constitutional Court.

**6. Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenues autonomously or from the central state budget?** The unitary state structure implies that revenues will be provided from the center to the localities. Exceptions are found in Gagauzia and in the proposed Transnistrian agreement, where local control of many aspects of administration and a local fiscal formula are provided. Central revenues, and thus contributions to the local authorities, have been limited because of Moldova's reduced economic productivity. Thus local authorities still rely heavily on local enterprises for contributions of services.

**7. Do the elected local leaders and local civil servants know how to manage municipal governments effectively?** Most local leaders had much of their experience working under the Soviet system, and do not know how to manage municipal governments effectively. The Academy of Public Administration is training an increasing number of local officials, but major changes will require additional training and a more productive economy.

**8. Has there been constitutional/legislative reform regarding local power? Has there been a reform of the civil service code/ system? Are local civil servants employees of the local or central government?** In November 1997, the parliament rejected the government's draft laws on the reorganization of local governments. Local officials are local government employees, however, most of the money still comes from the center.

## Rule of Law

4.50/7

**1. Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?** The post-Communist constitution was adopted on July 28, 1994. It took effect on

August 27, 1994, the anniversary of Moldova's declaration of independence. A powerful and independent Constitutional Court has sole jurisdiction over constitutional disputes and has overturned actions of both the parliament and the president.

In July 1997, the court declared several decrees issued by President Lucinschi, (related to the establishment of an anti-corruption agency) unconstitutional on the grounds that this sort of power is the prerogative of the legislative and not the executive branch.

In March 1996, the bitter feud between then-President Snegur and the Agrarian Democratic Party (PDAM) dominated government headed by Prime Minister Sangheli took an ugly turn. Snegur accused Defense Minister Pavel Creanga of corruption and demanded his resignation. This was despite the fact that, under Moldovan law, only the prime minister has the authority to dismiss ministers. After Creanga refused to resign, Snegur dispatched troops which surrounded the building for several hours before an emergency parliamentary session ended the impasse. In April of that year, the Constitutional Court ruled the dismissal was illegal. Nevertheless, Snegur apparently was intent on defying the court, saying the ruling only aggravated the situation. In June, Snegur warned that if Creanga was not dismissed, he would assume direct control over the army, elements of which showed loyalty to him and not Creanga. Creanga responded by saying he would call troops to arms if attempts were made to forcibly dismiss him. Following this exchange, events stabilized as the November presidential election loomed and Snegur was defeated.

**2. Does the constitution provide for human rights? Do the humans rights include business and property rights?** The constitution formally protects generally recognized human rights, including property rights.

**3. Has there been basic reform of the criminal code/criminal law? Who authorizes searches and issues warrants? Are suspects and prisoners beaten or abused? Are there excessive delays in the criminal justice system?** The old Soviet Code on Penal Procedure, with some amendments, is still law. Prosecutors and judges issue warrants. Nevertheless, illegal searches have occurred. There is also no judicial review of search warrants. Prosecutors have an inadequate capability to oversee wiretapping by the police and other security agencies.

There have been some reliable reports that police have beaten prisoners or suspects. Prison conditions are best characterized as grim, especially in cells for those awaiting trial and sentencing. Along with severe overcrowding, disease is epidemic and abuse of prisoners not uncommon. The court system and the criminal code were reformed in 1996. The new structure provided a separation between police functions and the courts. The Ministry of Justice replaced the Ministry of the Interior as the administrator for the prison system.

Another major problem is that the intelligence service and police have been known to monitor Moldovans electronically, especially government opponents. The prosecutor's office, which is supposed to authorize wiretaps, is unable to exert any real check on the activities of these agencies.

**4. Do most judges rule fairly and impartially? How many remain from the Communist era?** On the whole, judges seem to operate impartially. Nevertheless, there have been some reliable reports that some judges have extorted bribes in exchange for favorable rulings. In October 1997,

such charges were brought against a judge and a prosecutor in Cainari.

There has been a serious, ongoing effort to replace personnel from the Communist era with newly-trained judges.

**5. Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?** The courts operate under the Ministry of Justice but are separate from the Ministry of Internal Affairs. Thirteen district courts, five regional appeals courts, and two higher courts have been established. The president appoints the district judges and the parliament appoints the Supreme Court. Appointments to the new judicial structure were being made during 1995 and 1996. With the help of the Council of Europe, the structures and procedures now in place resemble European models more than the previous Soviet ones.

The independence of the judiciary has increased markedly since the end of the Soviet Union. For example, judges now have tenure. They serve for an initial period of five years and may be re-appointed for a ten-year term. Following that, they can serve until retirement. Still, the prosecutor's office has a very strong influence on proceedings. While defendants are considered innocent until proven guilty, prosecutors' recommendations are exceedingly influential. In July 1997, prosecutors obtained the power to open and close investigations without bringing them to a court's attention.

**6. What proportion of lawyers is in private practice?** A small but growing proportion of lawyers is in private practice.

**7. Does the state provide public defenders?** Suspects have the right to a public defender under the constitution, but this right is frequently undermined in practice. Access to a lawyer is frequently granted only after a suspect has been detained for a full day. The government requires, but does not pay, the local bar association to provide lawyers for indigent defendants.

**8. Has there been a comprehensive reform of anti-bias/discrimination laws, including protection of ethnic minority rights?** The constitution formally enshrines the principle of equality before the law. It also assigns special status for regions where ethnic minorities are concentrated. This provision has been utilized in Gagauzia and is central to the negotiations over the Transdniestrian area. Moldova was the first member of the CIS to be accepted into the Council of Europe after close scrutiny of its minority rights practices. Laws on citizenship, voting, language, and education accommodate minorities. Practice, though occasionally uneven, has largely followed the law. The Russian-speaking minority has been uncomfortable with its changed status after Moldovan independence, but actual discrimination has been quite limited. Minorities have claimed discrimination because the state language law requires people in public positions to be able to deal with the public in either the state language, Moldovan, or in Russian. The law itself, however, is quite accommodating to minorities in education, employment, designation of place names, and public services. Those in governmental or public employment were required by the Language Law of 1989 to learn the state language by 1994. The testing, however, required by the law has been delayed indefinitely.

Moldova ratified the Council of Europe's Convention on the Protection of Ethnic Minorities in October 1996.

## Corruption

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**1. What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests — for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?** Corruption is quite widespread. As of mid-1997, for example, 76 police officers and 32 senior officials at the ministry had been fired, and 50 criminal cases had been filed against police with seven sentenced thus far. In July 1997, for example, all four chief officers of the traffic police were fired after an Interior Ministry investigation revealed they were taking bribes.

The extent of corruption was highlighted in 1996 when the Justice minister was stopped in Austria driving a stolen car.

**2. Do top policy makers (the president, ministers, vice-ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses? How strong are such connections and what kinds of businesses are these?** In a major case in May 1997, authorities charged Minister of Privatization Ceslav Ciobanu with selling off a state sanitarium to a university founded by his wife.

**3. Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anti corruption cases been pursued? To what conclusion?** In 1996, the government ordered the interior ministry to form a department to fight crime and corruption. By mid-year, all civil servants were required to declare revenues, bank accounts, and other assets.

**4. What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted?** The Minister of the interior under Mihail Plamadeala launched an anti-corruption campaign in February 1997.

In April 1997, President Lucinschi issued decrees which established the Department for Organized Crime and Corruption Prevention within the Ministry of the Interior. In July 1997, the Moldovan Constitutional Court declared these decrees to be unconstitutional. The court ruled that the creation of such new departments was the prerogative of the legislative branch.

**5. How do major corruption-ranking organizations like Transparency International rate this country?** Transparency International did not rank Moldova in its most recent (1997) survey.

## Privatization

4.00/7

**1. What percentage of the GDP comes from private ownership? What percentage of the labor force is employed in the private sector? How large is the informal sector of the economy?** The private sector accounts for about 45 percent of GDP and employs between 50 and 80 percent of the

labor force. The informal sector of the economy was estimated at 15-16 percent of GDP in 1996.

## **2. What major privatization legislation has been passed? What were its substantive features?**

Moldova's privatization program was focused on a process similar to the Czech Republic's voucher privatization. So-called national patrimonial bonds were issued to each citizen in proportion to the number of years he worked in the economy. Some 90 percent of Moldovans ultimately participated in the program and about half of state assets were sold.

Privatization bonds could be sold to licensed voucher funds, which emerged as the largest investors in privatized firms. Voucher privatization ended in October 1996. In all, 1,400 small firms and 1,150 medium and large-scale enterprises were privatized through this method.

In June 1996, the government established "Regulation 562" which simplified procedures for privatizing the land on which state assets were located.

Other methods of privatization included cash sales of small enterprises and tenders for large enterprises. While the former has moved quickly, large tender privatization has yet to begin in earnest. Of the 41 large companies selected to be sold in 1995-6, none had been privatized by mid-1997. A major blow to the tender process occurred in December 1996, when the state canceled a tobacco company tender. The government had earlier announced that Reemtsma, a German company, had won the tender despite submitting a lower bid than the UK firm BAT. Another problem has been the continual delays in the privatization of Moldtelecom, the telecommunications monopoly. The 1997-8 program, passed in June 1997, lists 580 enterprises targeted for cash privatization.

Ceslav Ciobanu, the privatization minister, was forced to resign in June 1997 over a privatization scandal. Ciobanu was alleged to have sold a sanatorium to a private university in which his wife has a 16-percent share.

## **3. What proportion of agriculture, housing and land, industry, and small business and services is in private hands?**

By the end of 1996, there were 61,600 private farms. Agricultural privatization was slow early on. At first, most agriculture was done on collective farms. Later, these were transformed into joint-stock agricultural associations. The government, aided by U.S. AID, launched a program to break up 73 such associations and give land titles to individual farmers. The latest phase of the project was launched in March 1998 with the goal of breaking up 550 more farms over a 15-month period. If this works, then a majority of farmland in Moldova will have been privatized with farmers holding transferable titles to individually-owned pieces of land.

By the end of 1996, about 200,000 homes had been privatized; representing more than 80 percent of the dwellings available for privatization. Of these, 70 percent were privatized free of charge, 28 percent with National Patrimonial Bonds, and 2 percent with cash. An active market for housing has developed in Chisinau and Balti, and the beginning of a private housing boom can be seen around the larger towns and cities. Only 10 percent of land had been privatized by the end of 1995. About 70 percent of trade and services is private.

## **4. What has been the extent of insider (management, labor, and nomenklatura) participation in the privatization process? What explicit and implicit preferences have been awarded to insiders?**

Information not available.

**5. How much public awareness of and support for privatization has there been? What major interest groups oppose and advocate privatization?** Communists and other hard-left political groups virulently oppose privatization. They attempted to launch a popular referendum to nullify the land privatization law passed by the parliament in July 1997. There has not been much pressure by agrarian political forces and farmers themselves against the breakup of collective farms.

## Macroeconomics 4.25/7

**1. Has the taxation system been reformed? (What areas have and have not been overhauled? To what degree are taxpayers complying? Is tax compliance difficult to achieve? Has the level of revenues increased? Is the revenue-collection body overburdened? What is the overall tax burden?)** Moldova relies on five main taxes: a value-added tax (VAT), a company profit tax, a personal income tax, a land tax, and excise taxes. The VAT is the biggest source of income. Its rate is generally a uniform 20 percent, but it discriminates between countries. The profit tax is an even 32 percent. Income taxes range from 10 percent for incomes up to 4,320 *lei* (\$940) to 40 percent on incomes above 21,600 *lei* (\$4,695). Average incomes fall in the 10 percent bracket.

Tax arrears were \$145 million or 7.5 percent of GDP by the end of 1996. Most of the arrears came from the agricultural sector, with overdue land and excise taxes. In May 1996, the finance ministry launched a new initiative that called for seizing property of tax delinquents.

A simplified tax code came up for parliamentary approval in 1996. It aimed to abolish many exemptions, improve collection and compliance, and rationalize the various components of Moldovan taxes. The parliament adopted the provisions on the profit and income taxes in April 1997. In June 1997, the legislature passed a law exempting firms from penalties for late tax payments. The president vetoed this bill but his veto was overridden in October.

**2. Does fiscal policy encourage private savings, investment and earnings? (Has there been any reform/alteration of revenue and budget policies? How large are budget deficits and overall debt? Is the financing of the social insurance/pension system sustainable? What proportion of the budget is taken up by subsidies to firms and individuals)**

Government consumption has remained relatively steady at 20 percent of GDP. Debt as a proportion of GDP is 60 percent. Moldova's budget deficit was 7.7 percent of GDP by the end of 1997, an increase from the initial target of 4.5 percent. One major reason for this has been the reluctance of parliament — prior to the March 1998 elections — to penalize politically powerful firms who are delinquent on their tax payments. The economy grew at the rate of 1.3 percent in 1997.

This policy, as well as the decision to suspend energy price liberalization, led the IMF to delay the disbursement of the fourth tranche (\$15.5 million) of its extended fund facility loan, the last being made in July 1997. The World Bank signed a new structural adjustment loan agreement in September 1997 for \$100 million, but suspended the second installment in November to protest reform backsliding.

The Moody's credit rating agency rates Moldova's sovereign debt at the Ba2 level.

**3. Has there been banking reform? (Is the central bank independent? What are its responsi-**

**bilities? Is it effective in setting and/or implementing monetary policy? What is the actual state of the private banking sector? Does it conform to international standards? Are depositors protected?)** Yes, the National Bank of Moldova (NBM) is independent, and has been successful in curbing monetary expansion. A new central bank law adopted in January 1996 further strengthened the NBM. It can now put severely troubled banks into receivership.

There are four state banks and 21 commercial banks. The banking sector is considered generally sound but it is undercapitalized. Average interest rates on loans as of mid-1997 were about 37 percent.

There are numerous Western-style banking regulations, including capital adequacy, ratio of deposits to capital, maximum exposure to single borrowers, risk capital reserves, and a weighted capital asset ratio. Minimal capital requirements were raised to eight million lei (\$1.75 million) in 1997. The minimum reserve requirement was eight percent by the end of 1996. International accounting standards were expected to be introduced in all banks by the end of 1997.

**4. How sound is the national currency? (To what extent has inflation eroded its value? Is the value of the currency fixed or does it float? Is the currency convertible? How large are the hard currency reserves? Has exchange rate policy been stable and predictable?)** The floating Moldovan currency has been relatively stable since 1994. In nominal terms, it has fallen only slightly since 1995. In real terms, it has actually appreciated in value. Depreciation became noticeable, however, in October 1997, dropping to a record low of 4.68 lei to the dollar in January 1998. The leu is convertible on the current account, while capital account conversion requires a license from the central bank. Currency reserves are relatively high; \$373 million as of mid-1997. Some \$250 million of this is IMF funds. As a result, currency policy is extremely dependent on that institution.

Hyperinflation rocked the economy in 1992 at 1.277 percent and in 1993 at 1.751 percent. Since then, inflation has fallen steadily, dropping to 11.2 percent in 1997.

**5. Is there a functioning capital market infrastructure? (Are there existing or planned commodities, bond and stock markets? What are the mechanisms for investment and lending? What government bodies have authority to regulate capital markets?)** The Moldovan capital market is underdeveloped but is improving. The electronic Moldovan stock exchange was established in June 1995 with the help of U.S. advisers. Total trade volume has risen rapidly, from \$2.5 million in 1996 to \$28.4 million in the first ten months of 1997. The number of listed companies, however, is small — less than 20 — and is dominated by the voucher funds created during mass privatization. The capitalization of the market was \$670 million as of August 1997.

Moldova lacks a functioning shareholders' register. Minority shareholders do not enjoy many protections.

The State Commission on Securities Markets regulates the capital markets and its participants.

## Microeconomics 4.25/7

**1. Are property rights guaranteed? (Are there both formal and de facto protections of private real estate and intellectual property? Is there a land registry with the authority and capability to ensure accurate recording of who owns what? What are the procedures for expo-**

**priation, including measures for compensation and challenge? Have any seizures taken place?)**

Property rights are explicitly protected in the Moldovan constitution. Law guarantees fair market-price compensation for government “takings” of private land.

A law guaranteeing the sale of land was adopted in July 1997. Nevertheless, the Gagauz Yeri region stated that the law would not be operative in that area of Moldova. The new law overturned a restrictive land code passed in 1995 and set off a campaign by the Communists to hold a plebiscite on the issue. A majority vote of the parliament ended this attempt. Previously, the land code had been amended in February 1995 to restrict the sale of most private land until 2001. This moratorium, however, was declared unconstitutional in October 1996.

Foreigners are not allowed to purchase farmland, and farmland can not be resold within a five-year period.

Moldova adopted a law protecting intellectual property rights in 1995 but has yet to successfully attack massive piracy in software and entertainment products.

Establishing clear land title has been problematic. In November 1997, the parliament rejected a government-proposed law to set up a land registry. This has been a condition of the IMF and World Bank for resuming transfers to Moldova.

**2. To what extent have prices been liberalized? What subsidies remain?** Most prices, with the exception of energy, were liberalized by 1993. Energy prices were partially liberalized in 1997, but the parliament suspended the incomplete policy in October. Nevertheless, gas and electricity prices are now at cost-recovery levels.

**3. Is it possible to own and operate a business? (Has there been legislation regarding the formation, dissolution and transfer of businesses, and is the law respected? Do there exist overly cumbersome bureaucratic hurdles that effectively hinder the ability to own and dispose of a business? Are citizens given access to information on commercial law? Is the law applied fairly? Does regulation (or licensing requirements) impose significant costs on business and consumers? Do they create significant barriers to entry and seriously hamper competition?)** Legislation permits ownership and operation of businesses. Regulations, however, are strict and often arbitrarily enforced by an inefficient and often corrupt bureaucracy.

The official cost for registering a new company is between \$100 and \$1,000, and the process takes one to three months. New private enterprise registrations grew by 150 percent in 1996, although 90 percent of that figure represented sole proprietorships.

A new bankruptcy code was adopted in 1996, and gives new powers to liquidators. The prioritization of wage arrears, tax arrears, credit arrears, and other unpaid claims, however, is uncertain.

**4. Are courts effective, transparent, efficient, and quick in reaching decisions on property and contract disputes? What alternative mechanisms for adjudicating disputes exist?** Cases are generally heard in a large city court within six months. Decisions are made within approximately six months. Disputants have the right to appeal judgements. Important judgements are not generally published. Judicial review of administrative actions is not yet established. There are no specialized bankruptcy courts.

**5. Is business competition encouraged? (Are monopolistic practices limited in law and in practice? If so, how? To what degree is “insider” dealing a hindrance to open competition? Are government procurement policies open and unbiased?)** Anti-monopoly legislation was adopted in 1992 but has been largely ineffective. Most of the state-owned monopolies are scheduled for break-up and privatization, but this has yet to occur. Moldova has laws prohibiting insider dealing in shares of public joint-stock companies.

**6. To what extent has international trade been liberalized? To what degree has there been simplification/overhaul of customs and tariff procedures, and are these applied fairly? What informal trade barriers exist?** Moldova’s economy is quite open to foreign trade. It was further liberalized in June and September 1997. Average tariffs are 5 percent. A free trade zone was established in Chisinau in July 1996, and has become a success.

Quotas are present on the imports of unprocessed leather, energy, and cereals.

Russia is Moldova’s main trade partner, followed by Romania and Ukraine. Trade with the West has been limited. Moldova launched its application for membership in the World Trade Organization in June 1997.

**7. To what extent has foreign investment and capital flow been encouraged or constrained?** Current legislation places few formal barriers on foreign investment. Those that exist prohibit full foreign ownership in the financial sector and in natural resource extraction. Barriers are higher, but not total, in the privatization of state enterprises.

Foreign direct investment remains low, with a cumulative total of \$161 million by the end of 1996, a mere \$37 per capita. Moreover, the majority of this investment is dominated not by private firms, but by the European Bank for Reconstruction and Development. Meanwhile, foreign portfolio investment has increased steadily, to a total of \$234 million by mid-1997 (\$54 million in 1996).

In May 1998, economics minister Ion Guta announced plans to create ten free economic zones, which would mean 5-10 year tax exemptions for foreign investors.

**8. Has there been reform of the energy sector? (To what degree has the energy sector been restructured? Is the energy sector more varied, and is it open to private competition? Is the country overly dependent on one or two other countries for energy [including whether exported fuels must pass through one or more countries to reach markets]?)** The energy sector is only partially reformed. External and internal payments arrears are high and unsustainable. Much remains to be privatized and de-monopolized.

Delinquency in payments has resulted in numerous reductions and suspensions in gas supply, most recently during the 1996-7 winter. In September 1997 Moldova owed Gazprom (Russia) \$239 million, when a repayment agreement was finally signed with the company. The problem is fueled by nonpayment of gas consumers to the state gas monopoly, Moldovgas. Parliament approved the privatization and merger of Moldovgas and Gazsnabtranzit in February 1998. In partial repayment of its gas liabilities, Gazprom was given a 50 percent share in the company. The state will retain a

35 percent share.

Moldova relies almost exclusively on imports for its energy sources — only 2.3 percent of its supply originated domestically. Moldoveneasca is the country's main electricity generation station, but it is located in Transdniestr. While oil imports are relatively diversified, the Russian firm Gazprom still dominates gas imports. There has been some recent effort to develop indigenous supplies of gas and oil. The U.S. firm Redeco, for example, has a 20 year concession to explore for oil deposits in the southwest region. The World Bank is financing the installation of energy meters in the housing sector in an effort to reduce consumption and end payment delinquency.

Private fuel importers now account for 80 percent of diesel and gasoline imports.

In May 1998, privatization minister Iurie Badir announced plans to privatize three power plants and five energy distributors in September 1998.