

# Moldova 2017



**Total: 52.51**

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## Political Freedom

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### **Free and Fair Elections : 7.86**

Elections in Moldova are considered as free and fair. However, certain irregularities, which repeated from one to another election cycle, have been undermining the process. In the mid of 2016, new amendments were adopted, reintroducing a provision of direct elections for the President of Moldova. Two rounds of presidential elections were held on October 30th and November 13th, in a process which was, according to the OSCE ODIHR office report, marred by widespread abuse of administrative resources, lack of campaign finance transparency and unbalanced media coverage, as well as insufficient polling stations and ballots for citizens living abroad. Like almost all recent elections in Moldova, this one too was characterized by polarization on pro-European and pro-Russian parties and candidates. Igor Dodon, who ran on the idea of closer cooperation with Russia, was elected as the President of Moldova. Also, an increase of harsh and inappropriate rhetoric, targeting opposition candidate Maia Sandu, could be noted on the media coverage. By the end of observation period, June 2017, another set of amendments to electoral law was under discussion, aiming to change from proportional to mixed electoral system. This draft electoral law was negatively reviewed by the Venice Commission and by the OSCE ODIHR.

### **Absence of Unconstitutional Veto Players : 4.17**

Elected government in Moldova has the power to govern the country, but there are a number of players whose influence and interference can undermine the decision making process. One of them is oligarch Vladimir Plahotniuc, leader of ruling Democratic Party of Moldova (PDM), who controls the parliamentary majority and who is able to navigate country's politics via Prime Minister Pavel Filip, who is his close friend, as well as through the President of the Parliament, Adrian Candu, his godson. The Presidential elections also proved the very important and influential position of the Orthodox Church in Moldovan society and politics, where the Church supported Igor Dodon and opposed his contestants. Corruption among public officials remained a problem. Former Prime Minister Vlad Filat was sentenced to prison due to corruption. Transdniestria, a part of Moldova which is de facto controlled by Russia, is often used to influence politics in the country and its citizens were, according to some sources, organized to go and vote for Dodon at presidential elections.

### **Freedom of Press : 4.4**

Press in Moldova is partly free due to the strong influence of media owners on journalists reporting, to political pressure, to concentration of ownership and to an increase of verbal intolerance towards journalists. Media landscape is pluralistic, but diversity of opinions is limited. Independent reporting is often subject to revision by wealthy businessmen and politicians in power, who own the majority of media outlets in the country. Vladimir Plahotniuc, a leader of the PDM, controls the television market with an ownership share of 70%, representing 4 out of 5 TV channels with national coverage, according to Freedom House. Those outlets are serving as his political tool, which could be noticed through biased reporting on the latest presidential elections. New legal framework allows one person to own two broadcasters, but this doesn't apply to broadcasting licenses issued before this provision came into power. Verbal violence towards journalists in Moldova and threats that they might be criminally prosecuted became more frequent throughout the year, mostly due to their critical reporting on the political and business elites.

## Rule of Law

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### **Independence of the Judiciary : 2.59**

Lack of independence of judiciary is the main obstacle to the implementation of the rule of law in Moldova. The state of judiciary is obsolete and ruinous. Incompetence, nepotism, selective justice and corruption are widespread. Political pressure on judges or removal of non-compliant or critical ones is a visible and repeated practice. A reform of judiciary is under way, albeit very slowly and so far superficially. Civic control over police is insufficient, thus the occasional use of unnecessary force during street protests, or abuses in custody. Detention and penitentiary facilities are overcrowded. Laws allow for non-consensual detention of people with disabilities in psychiatric institutions.

### **Corruption : 3**

Moldova is by far the worst corrupt member of CEFTA. Among 176 countries of the world, it is ranked 123-130 in the Transparency International's index CPI 2016, matching e.g. Azerbaijan and being by just a hair's breadth better than Ukraine or Russia. Soviet-system heritage, slow post-independence transition into democracy and market economy, as well as the burden of separatism in the east, have left widespread public ownership in the economy, or enabled oligarchs to grasp it, especially in media. Thus both the high level and petty corruption are widespread. High level one includes participation of the financial authorities in the international money laundering schemes. Petty one is most present in education, healthcare and police. Bribery rate is very high, 42%. Anti-corruption and integrity-enhancing independent bodies are weak, even though - in 2016 - efforts were made by lawmakers to establish new ones (e.g. NIA) and to narrow the ground for possible corruption via liberalization of parts of the economy. In the eastern Transnistria region, similar to other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish, in spite of the attempts at economic integration with the rest of the country.

### **Protection of Human Rights : 5.84**

Human trafficking is the gravest threat to human rights and freedom in Moldova. The country is

both one of origin and one of transit. According to the Trafficking in Persons Report June 2017 by the US State Department, situation has worsened. Even though laws stipulate high penalties for traffickers, less are prosecuted, whereas law enforcement is marred by corruption, disorganization and lack of expertise in dealing with victims. Secularism, treatment of ethnic minorities and anti-discrimination of LGBTs are below even those meager standards in the neighborhood. Non-voluntary institutionalization of people with disabilities is also warned at by the UN Special Rapporteur and by the Amnesty International. In the Transnistria region, held by Russia-backed separatists, human rights` situation is worse than in the mainland, especially regarding personal security, education and minority rights. Forceful conscription into the self-proclaimed republic`s armed forces is supported by huge fines for draft-dodgers and followed by degrading treatment of those who join.

## Economic Freedom

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### **Security of Property Rights : 4.44**

Property rights in Moldova are mostly secure. As in many other countries with weak institutions, the problems are not due to regulatory environment but mostly to low judicial independence and strong influence of politically and economically connected groups. There are no courts that are specialized in commercial cases only. Fresh changes within the judiciary are yet expected to bear any results. Reliability of the police is very low, thus the business costs of damages caused by crime are perceived as high. Regulatory enforcement impartiality continues to pose significant problems, due to regulatory capture in which uneven enforcement is used as a tool for extortion and gaining favours. The new mediation law, that was recently introduced, provided financial incentives for parties that attempted mediation, with the aim of promoting these new resolution techniques in order to decrease the pressure on the judiciary system. Insolvency processes are very slow due to the high number of procedures, and could last up to 3 years, with very low recovery rates of only 28% on the average. Contract enforcement is also plagued with the same problem. At the same time, registering a property is inexpensive and efficient, due to reformed cadastre and notary services. Division of ownership of public assets between the central and the local governments is not always clear, leading to under-utilization of public resources. Foreign nationals face restrictions in ownership of the agriculture and forest land. Those are reserved to Moldovan citizens only, while foreign nationals can acquire land through inheritance only, even though they can lease it freely.

### **Size of Government: Expenditures, Taxes, and Enterprises : 7.05**

The size of government in Moldova is near the average level of Eastern Europe, with public expenditures reaching 36% of GDP in 2016. Public deficit has until recently been high, but it is expected to be put under control, partially in line with the IMF backed program, but also due to higher growth rates, which were recorded at 4% last year. Public debt is still moderate, standing at 38% of GDP in 2016, but fiscal position of the public sector is increasingly unsustainable, exacerbated by an increase in the already high pension transfers and high arrears of the local government and SOEs. Public pension system is unstable due to demographic changes and the

high emigration rate. Recent changes that increased compulsory retirement age are envisaged to alleviate some of the problems in this regard; the changes also included all the public sector employees in the general contributions system. Inflation rate has not yet been put under effective control. SOEs are still present in many areas and in several cases hold monopoly status (for example, the postal services). The most important government-controlled companies are public utilities and electrical distribution, but also the largest tobacco company, the air carrier, the railway company and the fixed line telephone operator. Private companies are not legally discriminated, but SOEs can use close political connections for obtaining preferential treatment in the market. Income tax is progressive, with tax rates of 7% and 18%, while corporate income tax is set at the low level of 12%. General VAT rate is 20%, while a limited number of products are taxed by the reduced rate of 8%. There are many incentives and tax deduction plans, which are not coherent or organized. The new law on information technology, in place since January 2017, established a special single tax for IT employees, much lower than it would have been otherwise.

## **Regulation of Credit, Labour, and Business : 5.16**

Business regulation in Moldova is not overly too business-friendly. Starting a business is easy and may take just a couple of days. Paid-in minimum capital is symbolic, just one Moldovan leu (MDL), but the registration fees have recently been increased, although not substantially. Tax-compliance red tape is not excessive, with little annual payments and high incidence of online services, enhanced by recent elimination of submitting social security documents in hard copy. On the other hand, getting electricity is a lengthy process due to many expensive procedures, even though the new legislation eliminated inspection by the state energy inspectorate for smaller electricity consumers. Obtaining a construction permit is also a long process, due to inefficiently high number of procedures, which could involve not only many documents as a prerequisite but also discretionary decisions. Such an environment, with many bureaucratic hurdles, leads to high levels of corruption and extortion by the public administration. In fact, corruption, as well as policy instability, is perceived as the most important deterrent to a growth-conducive business environment. Labour code has both flexible and inflexible characteristics: allowing for longer working periods in case of increased workload, with a 6-day work a week as possibility, but also restricting work during the night or on public holidays. Firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules protect more seasoned workers, with severance pay increasing according to the years in tenure. Another significant burden is the 12-month obligatory military conscription.

## **Freedom to Trade Internationally : 8**

Freedom of trade in Moldova is generally upheld. Tariffs are relatively low, with the simple average Most Favored Nation (MFN) applied rate standing at 5.4%, but regulatory non-tariff trade barriers are burdening imports. Custom documentation could be a lengthy procedure, especially regarding exports, although only 7 documents are needed. Corruption and partial treatment with the customs department are still present. Although national treatment for foreign companies is secured, public officials might favour domestic companies through regulation, a clear example being the environmental tax on bottles from imports, while this tax isn't levied on bottles produced in Moldova - leading to the only case in front of the WTO with Moldova as a defendant. Poor transport infrastructure also hinders international trade, by increasing freight costs. Main Moldovan trade partners are EU countries (the most important ones being Romania, followed by Italy and Germany), and Commonwealth of Independent States (CIS) countries, most notably the Ukraine and the Russian Federation. Moldova has been a World Trade Organization (WTO) and Central Europe Free Trade Agreement (CEFTA) member since 2001 and 2007 respectively. The

Association Agreement (AA) between the EU and Moldova, which had been provisionally applied since 2014, has been now, after its ratification, fully implemented. In June 2016, Moldova ratified the revised Government Procurement Agreement (GPA) of the World Trade Organization, lowering barriers towards foreign companies competing in public contracts in the country, while also creating more opportunities for Moldovan companies in public contracting abroad. The Trade Facilitation Agreement (TFA) was also ratified in June by Moldova, but this program, that is envisaged to enhance the clearance of trade flows and transit, is yet to come to force after the required WTO majority ratifies it.