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ANTICORRUPTION REFORM IN THE REPUBLIC OF MOLDOVA

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Contents

Executive Summary	7
Summary of Key Findings	7
Summary of Key Recommendations:	7
List of Acronyms	10
1. Introduction	11
2. Background	15
Brief history of Moldova	15
A culture of entrenched corruption	24
Reasons for high levels of corruption	34
3. Anticorruption reform	36
Start of the anticorruption reform	36
Anticorruption measures so far	40
4. Policy Questions and Justification for Evaluation	52
5. Methodology	54
Set up and Assumptions	55
Interview Sample Design and Questionnaire Design	57
6. Analysis and Conclusions of the Evaluation	58
Changes in Data and Indicators	58
Conclusions of interviews	61
7. Case Studies of Anticorruption Reforms	66
8. Policy Recommendations	76
9. Conclusion and Constraints of the Study	89
Epilogue	91
Appendices	97

Appendix 1: Qualitative Interviews and Field Visits	97
Appendix 2: Full Questionnaire - English Version	98
Bibliography	100
Author biography	109

Executive Summary

This Policy Analysis Exercise (PAE) explores the nature, causes, and drivers of corruption and smuggling in the Republic of Moldova, the success or failure of anticorruption reform so far, and what the government of Moldova needs to do to diminish corruption from now on.

Summary of Key Findings

< The Moldovan anticorruption reform, officially started in 2002, has so far, overall, failed to diminish corruption in the country.

< Both changes in corruption indicators and qualitative interviews point to an increase in corruption levels.

< The Communist administration has been the most corrupt, however, all ruling political parties have been highly involved in corruption, regardless of ideology or foreign policy.

< Most successful anticorruption initiatives, such as demanding more transparency from the government or providing more information on political candidates, has come from the NGO sector and the industry.

Summary of Key Recommendations:

< The Moldovan government should show political will for implementing reforms and real commitment to fighting corruption.

< An independent and effective anticorruption agency should be created. It must: 1. not be part of or under any government ministry, 2. respond to and receive funds only

List of Acronyms

ENP	European Neighborhood Policy
EU	European Union
EUBAM	European Union Border Assistance Mission
CIS	Community of Independent States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
NATO	North Atlantic Treaty Organization
NGO	Nongovernmental Organization
OECD	Organization for Economic Co-operation and Development
SSR	Soviet Socialist Republic
UNDP	United Nations Development Program
USSR	Union of Soviet Socialist Republics

1. Introduction

From all the threats to its internal security, economy, democratic, and social development that a state has to face, corruption is considered to be one of the most destructive. By distorting the rules of the game to benefit the few at the expense of the many, corruption represents a big hit to the free and fair competition that is required for the development of every aspect of life. In the developed world, a study made in 7 countries, revealed that a large number of companies believed that they had failed to win contracts or gain new businesses in the previous 5 years because a competitor had paid a bribe. The percentage of companies that asserted this went from 26% in the United Kingdom to 76% in Hong Kong. When the time frame was changed to the last 12 months, the percentage of firms that said they lost contracts in that period went from 20% in the United States to 66% in Hong Kong.¹ The spread of corruption, however, is much greater in developing countries around the world.

With a GDP per capita of \$ 3000, Moldova is the poorest country in Europe and corruption is pervasive at all levels of government.² Transparency International graded Moldova 2.9 out of 10, and ranked it 112th most corrupt country out of 183.³

¹ Simmons & Simmons, "Facing up to corruption 2007: A practical business guide", *Control Risks*, 2007. Available online at: <http://www.giacentre.org/documents/CONTROLRISKS.CORRUPTIONGUIDE.pdf>, p. 2

² Luke Harding, "Uranium smuggling ring broken up in Moldova police sting," *The Guardian*, Wednesday 25 August 2010 11.19 EDT Available online at: <http://www.guardian.co.uk/world/2010/aug/25/moldova-uranium-smuggling-ring-dirty-bomb>

³ *Transparency International - Country Profiles*. Available online at: <http://www.transparency.org/country#MDA>

After being ruled by the communists for years after the break-up of the USSR, following elections in 2010, Moldova had a number of democratic parties in power and the ruling government coalition, which named itself The Alliance for European Integration, declared that tackling corruption was a major priority for the country. The main questions that this PAE tries to answer are:

"How successful have the reforms of the Moldovan government been so far in lowering corruption?" and

"What future policies would best enable Moldova to reduce levels of government corruption?"

There are multiple definitions of corruption, many revolving around the characteristics of agent-client relationships, misuse of public office, breach of the law, incompatibility with public opinion, and last, but not least, violation of public interest.⁴ Transparency International defines corruption as "the abuse of entrusted power for private gain".⁵ In order to provide better focus, for the purposes of this report, we will use the definition of corruption used by the World Bank: corruption is "the abuse of public office for private gain".⁶ In other words, we will specifically look at instances of corruption when public officials are involved. In general, the most common types of

⁴ Raul Carvajal, "Large-Scale Corruption: Definition, Causes, and Cures," *Systemic Practice and Action Research*. Available online at: <http://www.springerlink.com/content/r6u7146u3471964/>

⁵ *Transparency International*. Available online at: http://www.transparency.org/cpi2011/en_detail

⁶ The World Bank Group, "Helping Countries Combat Corruption: The Role of the World Bank". Available Online at: <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm#note1>

corruption are: 1. bribery, and 2. theft (of state assets).⁷ Corruption is seen as a negative aspect of society, because it lowers domestic investment (high levels of corruption lead to lower efficiency of investment), lowers FDI (foreign companies are also less likely to invest in a corrupt country, because they expect that they have to pay bribes to get the required permits to function), lowers the quality of services (institutions where officials expect bribes from citizens will not deliver as they are supposed to), lowers the amount of government revenue (taxpayers can bribe officials to fudge documents and thus get away with untaxed income), and lowers exports (corruption leads to loosely enforced import laws, which affects domestic producers, thus decreasing GDP and increasing trade deficit).⁸ In other words, corruption undermines all economic processes that would normally increase the welfare of the population.

This report has two parts. First, I analyze the causes of corruption and see to what degree the Moldovan government has tried to tackle each of them.

In the second part of the report, I analyze a number of best practices and take a look at some case studies of countries that have implemented anticorruption reforms, such as Hong Kong, Malawi, Georgia, and Romania, and see to what degree their reforms were successful. I will also analyze whether the circumstances in those countries and

⁷ The World Bank Group, "Helping Countries Combat Corruption: The Role of the World Bank". Available Online at: <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm#note1>

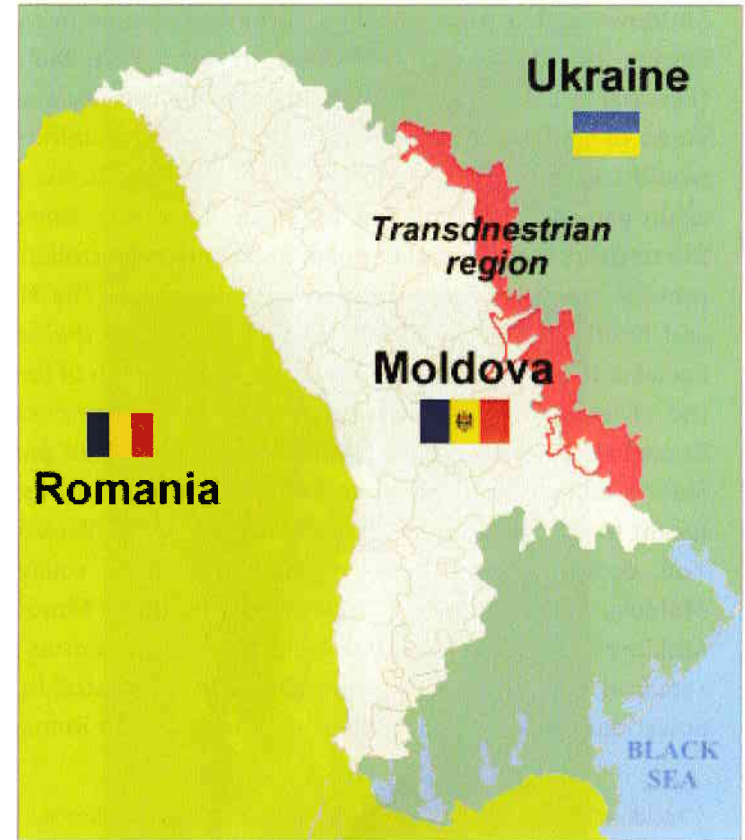
⁸ Graf Lambsdorff Johann, "Consequences and causes of corruption: What do we know from a cross-section of countries?" Available online at: <https://www.econstor.eu/dspace/bitstream/10419/55031/1/684238772.pdf>

those in Moldova are similar enough that lessons from the former can be applied in the latter case.

The final part of the report is a conclusion, based on the analysis of the prior reform implemented in Moldova and the successes or failures in the case studies, about what the Moldovan government should be doing from now on to lower the level of corruption in the country.

2. Background

Brief history of Moldova



Map of Moldova and neighboring countries after 1991. The Moldovan-Transnistrian border is still not clearly demarcated on some segments. Source: Wikipedia

It is hard to understand the present situation of Moldova without understanding its troubled past. Historical Moldova,

a territory double the size of today's republic, was one of the three Romanian-speaking states that existed in South-East Europe for more than five centuries. In 1812, the eastern part of Moldova, also called Bessarabia, was conquered by Russia and made an autonomous region in the empire.⁹ The rest of Moldova unified with Walachia, forming Romania in 1859.¹⁰ During the Bolshevik Revolution in 1917, East Moldova (Bessarabia) proclaimed its independence from Russia and voted to unify with Romania a year later.¹¹ The unification would last until the Second World War, when Russia once again gained control of East Moldova. This time, however, the territory was divided in order to be better controlled and prevent any future reunification with Romania. The North and South of East Moldova were made part of the Soviet Socialist Republic of Ukraine, while a small stretch of land in the East, called Transnistria (also sometimes called Transdnestria), was taken from Ukraine and made part of SSR Moldova. This strategic move by Russia's Stalin was also meant to cut all future access of Moldova to the Black Sea.¹² This decision would have repercussions until today, as Moldova still remains a landlocked country. Moreover, Moldova went through brutal social transformations as over 1 million Romanians were deported and/or executed by the Soviet authorities. Overall, from 1944 to 1959, the Romanian

⁹ "Moldova". Library of Congress Country Studies. Available online at:

[http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+md0013\)](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+md0013))

¹⁰ Charles Jelavich, Barbara Jelavich, "Establishment of the Balkan National States: 1804-1918". University of Washington Press, USA, 1977. P. 116

¹¹ Charles Upson Clark (1927). "24: The Decay of Russian Settlement".

Bessarabia: Russia and Roumania on the Black Sea - View Across Dniester From Hotin Castle. New York: Dodd, Mead & Company.

http://depts.washington.edu/cartah/text_archive/clark/bc_17.shtml#bc_17

¹² Charles King, "The Moldovans: Romania, Russia, and the Politics of Culture", Hoover Institution Press, 2000, P. 95

population in East Moldova shrank from 3.5 million to 2.3 million.¹³ The genocide is frequently referred to in Eastern Europe as the Red Holocaust.



Soviet monuments in Transnistria

Source: Author's Photos

¹³ (Chifu 2004, pg. 114)

Fast forward to the end of the Cold War, the Moldovan Soviet Socialist Republic declared its independence with the breakup of the Soviet Union and became the Republic of Moldova in 1991. The country not only failed to regain the territories it had lost to Ukraine, but a civil war in Transnistria also broke out. The Transnistrians wanted to either gain independence or be incorporated back into Ukraine, to which they belonged before 1940. Unlike in the rest of Moldova, in Transnistria, the Romanian population was and still is a minority, and the majority is formed by the Slavic, Russian-Ukrainian population. The 1992 Civil War in Moldova was brief, lasting only a few months, and the number of casualties (less than 3000 on both sides combined), was low, especially compared to all the other civil wars in Europe that took place throughout the 1990s (in Bosnia, Kosovo etc.). The war, however, gave Russia an excuse to maintain its army in Moldova and support Transnistrian separatism. To this day, Russia maintains 1,400 soldiers from its 14th Army in Transnistria, and there also another 500 Russian "peacekeepers" that are deployed around the separatist territory. Additionally, there are over 21,500 tons of military ammunition that Russia had promised to evacuate since 1998, but which still remain in Transnistria.¹⁴ The situation in Transnistria is currently considered a "frozen conflict" by the international community. The region is not recognized as independent by any country in the world, however, it has all the institutions of a proper country. It has its own constitution, parliament,

¹⁴ Adrian Mogos, Mirces Opris and Vdovil Lina. "Investigatie: Transnistria, republica KGB." *Ziarul de Garda*. July 14 2012. Available online at: <http://www.zdg.md/stiri/investigatie-transnistria-republica-kgb>

government, flag, anthem, central bank, money, army and police.¹⁵ Since Moldovan authorities have virtually no control over Transnistrian territory, this makes it such that no anticorruption reform can be implemented in this part of the country. As mentioned later throughout the report, Transnistria is in many ways at the heart of corruption and smuggling in Moldova. The ordinary people in the region have no rights guaranteed and the separatist government rules everything with an iron fist. Recently, the United States and the United Nations declared that in Transnistria rule of law is elusive, trials are not fair, jails do not respect international standards, and torture is common.¹⁶ Also, since Transnistria is still officially part of Moldova, the Moldovan government is liable in the face of the international community for what is happening in Transnistria. A number of people have started lawsuits at the European Court of Human Rights for the treatment they received in Transnistrian jails. Should the Court side with the claimants, the government of Moldova is liable and will have to pay hefty financial compensations.¹⁷ So Moldova is in a paradoxical situation, not having control over Transnistria, but at the same time being liable for whatever happens in that territory.

¹⁵ Richard Humphries. "Transnistria: relic of a bygone era." *The Japan Times*. Monday, Oct. 8, 2001. Available online at: <http://www.japantimes.co.jp/text/fv20011008a2.html>

¹⁶ Redactia Unimedia, "SUA și ONU vorbesc despre tortură în regiunea transnistreană". Available online at: <http://unimedia.info/stiri/sua-si-onu-vorbesc-despre-tortura-in-regiunea-transnistreana-57586.html>

¹⁷ "Drepturile omului, călcate în picioare în închisorile din Transnistria. Deținuții riscă să se infecteze cu virusul HIV și TBC", *Publika TV*, 22 February 2013. Available online at: http://www.publika.md/drepturile-omului--calcate-in-picioare-in-inchisorile-din-transnistria--detinutii-risca-sa-se-infecteze-cu-virusul-hiv-si-tbc_1272221.html