Promoting Government Accountability in Moldova

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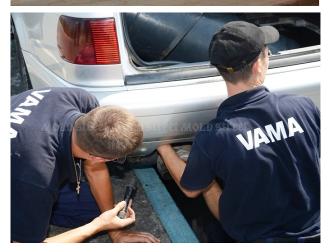

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Promoting Government Accountability in Moldova

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The version in English

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Instead of Pay Raise, Government Prepares Pay Optimization in Public Area

Public sector employees – especially in the education area – continue to nourish hopes for a perceptible pay raise. This expectation however is unlikely this year, because the salary bill for teachers and lecturers is already too expensive, the Government says. Earlier protests with education employees forced the Government to pass a number of decisions regarding the remuneration improvements. One of decisions envisages a salary increase for education staff in public institutions and for other employees based on the Common Tariff Network.

Pay raise promises

Starting May 1, 2017, the public education staff in Moldova will receive a monthly raise of 100 lei (5$) and from September they will get a 10% raise, the Labor and Social Protection Ministry announced. At the same time, current legislation and the 2016 economic performance would allow to raise teachers' salaries by 5.3% while the Government would be looking for additional funding during the amendment of the 2017 budget. On the other hand, the Government admits in the Additional Memorandum on Economic and Financial Policies with the IMF that it is short of resources to increases the public spending, including salaries.

Salary expenses are "too large"

"On the expense side the salary expenses in the public sector exceed the targets that have been established in the Memorandum with the International Monetary Fund which was signed on October 24, 2016," the executive said in a press release. The main reason is the approval of a new law on retirement pensions in December 2016, which applied general rules on social contributions for all categories of public sector employees.
"It is expected that the net impact on the public budgetary deficit will be limited, given that the increase of salary expenses in the public sector will be compensated significantly by larger revenues to the social fund," the release reads.

Government: Blame the pension reform!

In 2017 the spending for public sector salaries will amount to 12,461 million lei, which is 537 million lei (+4.5%) above the target of 11,924 million lei, with governmental official blaming the reform in the retirement pension system. "The reform […] started in order to make the retirement pension system fairer, more sustainable and more transparent. The Law on Pension System Reform which was passed in December 2016, foresees: (i) enforcement of a new calculation formula, which would ensure a stronger connection between contributions and pensions in order to improve the coverage and conformity; (ii) gradual increase of the retirement age up to 63: for men until 2019, for women until 2028; (iii) application of identical methods of calculation of contributions and pensions across the entire public sector; and (iv) payment of a basic pension to reduce poverty among the elderly," the document reads.

In parallel, the Government says it has begun a complex administrative reform that is due to complete in autumn 2017, just ahead the debates on the 2018 budget where the costs of this reform should be added.

Optimization of salaries at the horizon

This task is clearly mentioned in the IMF-Moldova agreement: Optimization of salaries and labor force in the public sector shall begin in every sector apart, and the system of motivation of employees and the mechanism for incentives shall begin too. The targets refer to the maximum salary level in the public administration; minimum social expenses in the public administration; and the top ceiling for the government's internal arrears.

Premier Pavel Filip blames the previous governments for the state of the remuneration system – without naming one. „For years, in a populist and non-transparent way, governments of Moldova changed parts of the system for certain categories of beneficiaries, and thus they undermined the integrity and viability of the remuneration system. For these reasons, I have requested the crafting of a new remuneration system concept in the public sector. We need a unitary system, fair and strong," the prime minister said at a meeting with a reform taskforce.

Rank or performance?

The draft concept of Mr. Filip's reform has been prepared and will follow the principle "equal pay for equal labor" – which means the salary will be linked to the rank of the job. The draft calls for reducing the complexity of the remuneration system by increasing the pay size for the job ranking compared with the total salary; this is designed to make the public jobs more attractive for young specialists.

Performance is another principle in the new concept; it will be applied in the case of most categories of employees where remuneration will encourage the so-called flat growth and development based on performance and experience. The document also provides for a growing degree of uniformity, clear rules, fairness, transparency and protection of the unitary nature against eventual interferences, according to the premier. ©

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The Battle for Moldovagaz: 20 Companies Reorganized into Three Entities

The plan to restructure the Russian-Moldovan joint venture Moldovagaz in compliance with "European Directives" is set to win approval at the annual meeting of shareholders on 26 May 2017, sources in the Moldovan Government say. It is the Third Energy Package of the European Union and new national laws on natural gases that entail Moldova to break up the domestic gas monopolist. The company is owned by Russia via Gazprom (50%), Moldova (35.33%), separatist Transnistria 13.44%, with small shareholders accounting for 1.3%.

Three to stay out of 20

The group is currently represented by 20 smaller, regional firms, and after reorganization only three entities will remain on the Moldovan gas market. The first one, Moldovagaz S.A., shall continue to import natural gases from the Russian Federation and shall assume a debt of more than 700 million dollars towards Gazprom. The other, Moldovatransgaz S.A., will handle the transportation and transit operations. The fate of a subsidiary that manages the butane and propane filling stations is yet unclear. Chișinău-Gaz S.R.L. will clue the remaining 12 limited liabilities that deal with the distribution and delivery of gases to consumers.

Chișinău-Gaz will become the most important and largest gas business in Moldova. Last march it welcomed a new chief, Ruslan Garbali, a Socialist member of the Gagauzian regional legislature who had run the pledge management department at the Moldovan Savings Bank (BEM). The bank was closed in 2016 over its role in a billion-dollar financial fraud two years earlier.

Mr. Garbali will manage a company with a turnover of five billion lei. Whether Moldovagaz chairman Vasile Botnari, a former minister on behalf of the ruling Democratic Party, will keep his job is unclear for the time being. "It is not a simple reorganization – we are running a whole restructuring of the group of companies that are part of Moldovagaz," Deputy Prime Minister / Economy Minister Octavian Calmic promised in an interview published by Deschide.md. "We shall create distinct enterprises for the transportation, distribution, and supply of natural gases. We don't have such a structure at present. There is now a mother company, and a number of regional daughter firms and our plan is to implement a reorganization based on other principles," Mr. Calmic stated. The deputy premier pointed to the European Union's Third Energy Package and a number of Moldovan laws which the Chisinau Parliament passed in 2016 and take effect in 2017-18.

In October 2011 Moldova had committed itself to enforce the Third Energy Package until January 2015 and then negotiated a deferment until 2020. The E.U. Directives oblige the signatory countries to break up monopolies into separate operations and to ensure equal access to the transportation, distribution, and storage of natural gases. Distribution will be thus taken over by an entity acting independently from the producing corporation – Russia's gas giant Gazprom. The latter, which is controlled by the Russian government, has claimed that the Third Energy Package was designed namely against Russia.

Gazprom empire in Moldova

Gazprom currently controls the entire journey of natural gases from the Siberian probes to the homes of Moldovan consumers, either directly or via Moldovagaz. According to the investigative portal RISE-Moldova, directly and indirectly Moldovagaz officially controls 19 gas distribution firms (100%), transportation company Moldovatransgaz, and gas servicing enterprises Flacara Albastră in Chișinău and IALG in Strășeni. Moldovatransgaz in turn is a parent company of Transautogaz, and Bălți-Gaz, a subsidiary, owns Bălți-Gaz-Montaj and Realexpres-Gaz in Sângerei.

Moldovagaz also appears as a founder of the distribution enterprises in the secessionist region of Transnistria. In its annual reports for 2008-2009 it admitted that 25% of Tiraspoltransgaz is its property; the latter in turn has six enterprises in its property. Gazprom currently manages the assets in Transnistria and is expected to take over all of them in exchange for the region's huge debts.

Moldovan Deputy Premier Octavian Calmic said all low- and medium-pressure tubes which Moldovagaz has been using for years would be transmitted into the permanent ownership of this or other company that appears as a result of reorganization. According to Moldovagaz records, it currently owns just 34.3% of the distribution network while the remaining 65.7% of networks don't appear in any property acts. This accounts around 22,000 kilometers – without 1,560 kilometers of main pipelines – of which only one third belongs to Moldovagaz.

Separation, in three scenarios

Although it is not clear what will emerge in the end, the Moldovan legislation foresees at least three scenarios. The new gas law provides for an explicit "separation of the transportation operator from the distribution operator, and the storage operator in relation with the integrated natural gas enterprises or related enterprises." The National Energy Regulatory Agency (ANRE) is the public authority that oversees and governs the energy and related sectors in Moldova. ANRE management earlier promised to enforce the law exactly but first asked a plan of reorganization of Moldovagaz until 2019. ©

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Who and Why is Playing with Moldova's Veterinary and Phytosanitary Safety

The National Food Safety Agency has announced that the new veterinary and phytosanitary control checkpoint is ready to enter into operations. Its construction took almost four years amid fighting between various groups inside and outside ANSA while the costs of this project have soared. On June 2, 2017, Moldova formally opened a Station for Sanitary-Veterinary and Phytosanitary Inspection at the Leuşeni customs and border checkpoint. The station in Leuşeni is part of a network of veterinary and phytosanitary control facilities which Moldova has raised with the support of the World Bank. They will be managed by the National Food Safety Agency (ANSA).

An investment of 2.5 million dollars

Other three stations have been built at the border checkpoints Tudora, Criva and international port Giurgiulești. They are fit entirely for food safety inspections and are endowed with equipment and tools for the collection of samples, storage (including cold conditions) and transportation of produce. The stations run cold store facilities with temperature regulation and warehouses for long custody of suspected samples.

The Leușeni station is the largest; it covers approximately 1,350 square meters of operational space and is the only where inspectors are able to check vegetal and animal samples as well as living animals. ANSA, which operates the stations, has promised to install in Leușeni state-of-the-art equipment for labs, appliances and platforms for download/upload activities, and rooms for animals in quarantine.

The total investment that covered the cost of the four stations amounts to more than 2.5 million lei. The money was given by the World Bank as part of the Competitive Agriculture in Moldova project. The existence of these sanitary-veterinary and phytosanitary inspection stations is one of the major objectives which Moldova has to accomplish as part of its Deep and Comprehensive Free Trade Agreement with the European Union.

Then the rush spoils the job

ANSA however says not one word about why the project has been completed on a delay of almost four years. The authority first said the station in Leușeni would be ready for use by the end of 2013. The Government later set the deadline for all stations including the one in Leușeni at the end of 2016, in compliance with the national action plan for implementation of the Moldovan Association Agreement with the E.U.

An analytical report by the National Anticorruption Center (CNA) demonstrates why the costs increased 2.5 fold and why the project completed at least three years beyond the deadline. The first auction for construction was announced almost four years ago, on July 19, 2013, and offered 855,000 dollars (or 10.8 million lei at that time's exchange rate). The assessment board included representatives of the Agriculture Ministry (MAIA), Finance Ministry, ANSA, and the Consolidated Unite for Implementation and Monitoring of Agricultural Projects (UCIMPA). There were three bids: a consortium of Horeco Impex SRL and Frigoclima SRL (Romania and Moldova) – 13.5 million lei; Badprim SRL – 11.5 million lei, and Oztor SRL – 13.4 million lei. The conditions required both the physical construction and the design services for the Leuşeni stations.

„Given these circumstances, it is not clear what were the criteria which the auction organization board established the implementation period in the task book; it is obvious that the two-month term for completion was not enough for this kind of services," the CNA report says. The requirements were unrealistic and work could not even kick off during this period because the preliminary approval from the public authorities in charge with the project had been missing.

CNA finger points to ANSA as the party that had compromised the enforcement of the contract within the first deadline. In that year, 2013, this authority was run by Gheorghe Gaberi, who has returned to the chiefdom of this institution. „In early July 2013, ANSA asked UCIMPA to consider urgently the possibility of constructing the Leuşeni sanitary-veterinary and phytosanitary station… as a separate project from the other three stations (in Tudor, Criva and Giurgiuleşti)" the CNA report said. ANSA intended to cut the ribbon of the station at a ceremony on October 11, 2013, when E.U. Agriculture Commissioner Dacian Cioloş was expected to visit Moldova.

However, ANSA demanded that design services and construction services get provided simultaneously, a desire that contradicts the existing legal framework. UCIMPA and the World Bank Office in Chisinau developed a task book and published the notice about the contest. The deadline for application was August 21, 2013, and implementation was set for the end of August.

Bids rejected for bizarre reasons

The outcome of the contest was a disaster: all competitors were disqualified. Badprim, for example, asked the lowest price but its bid was turned down for "not meeting the contest conditions and namely the successful implementation of at least two similar projects by nature and complexity." The contest board found that of all the projects which Badprim had submitted only one was relevant: construction of a customs terminal in Kaliningrad, Russia, a project that cost 294.2 million lei or 30 times more expensive than the cost of the Leuşeni station; other six projects cost between 15 and 33 million lei and were rated as "irrelevant."

Another company, Oztor SRL, which asked the second largest price, was dismissed for its commitment to complete the project in 105 days; that is until the end of year 2013. The board noted in this regard that this promise was „a serious violation of the task book conditions over the excess of the implementation term by 75%."

The third competitor was a Romanian-Moldovan consortium. It was refuted for failing to submit proof of participation in similar projects. The board turned down all of the bids and the project for construction of the

Leuşeni station stepped on the spot for three years. The costs though made a significant progress.

Following the failure of the first contest, a decision was taken to divide the projects into two separate contracts: one would be the design job and the other would be the construction job. IGC Construct SRL was selected on October 21, 2013, to design the facilities within 45 days. As of the end of 2013 no design plan had been submitted. A repeated contest for construction was held in one year, on December 1, 2014. Building Astrom SRL from Romania was selected as the winner for this job. It pledged to build the facilities for 17.6 million lei or 977,400 dollars; this is 6.1 million lei more than the lowest price bid at the first contest. The large difference in prices (in Moldovan lei) is due to an abrupt depreciation of the Moldovan currency in 2014-2015.

Believe or not, the Romanian company had not finished the work. It only could accomplish one third of the construction plan, for 5.3 million lei 257,500 dollars and then it filed for bankruptcy.

CNA accuses ANSA

Nonetheless, in April 2016, UCIMPA holds a new contest and drops two stations into the same shopping basket: Leuşeni and Giurgiuleşti. By the deadline at June 3, 2016, there were four competitors:

> *1. A consortium of Horeco Impex SRL (Romania) and Frigoclima SRL (Moldova) – 28.2 million lei for the station in Leuşeni and 11 million lei for the station in Giurgiuleşti.*
> *2. A consortium of Iasicon SRL (Romania) and Acar-Construct SRL (Moldova) – 26.6 million lei for Leuşeni and 10.2 million lei for Giurgiuleşti.*
> *3. Badprim SRL – 25.8 million for Leuşeni only.*
> *4. A consortium of Sarco-Service SRL (Moldova) and Wincon SRL (Romania) – 19.4 million for Leuşeni only.*

The National Anticorruption Center found that the selection board was in agreement about the Giurgiuleşti station project and on July 18, 2016 it selected the pair Iasicon SRL - Acar-Construct SRL as the winner. Things were difficult however regarding the Leuşeni station project. First, the board stopped at the Sarco-Service - Wincon consortium but ANSA refused to recognize the deliberations' results and invoked the winner's failure to comply with the contest conditions. The National Food Safety Agency demanded UCIMPA to disqualify the consortium and pick up the next competitor.

ANSA said: „Bearing in mind that construction of the Leuşeni […] station needs to begin as soon as possible in order to complete it until the end of the year, we are asking that you act in strict compliance with the World Bank procedures and propose the next candidate that meets all of the requirements as it was set out in the contest documentation and the World Bank guidelines. „From the previous experience we have had with this consortium, at the Tudora and Criva stations, we learned personally of their incapacity of meeting their contractual obligations on time, recording delays in the implementation process that lasted for more than one year."

But CNA specialists see bias in the explanations provided by ANSA as concerns the disqualification of the winner. „The failure to complete on time the construction of the Criva and Tudora stations was not a fault of the bidder but a consequence of ANSA's failure to step up action as a beneficiary," the Center's report states.

Gaberi: CNA manipulates public opinion

Gheorghe Gaberi, the then and acting director of ANSA, has dismissed the allegations and branded the Center's report as "a manipulation of the public opinion at the orders from a company that had demonstrated a poor performance while carrying out construction of another border stations."

"These are fairy tales. People in CNA never visited ANSA headquarters for fact-checking purposes. For example, they say that the price is twice higher but [they forget that] in 2013 the exchange rate for the dollars was much lower than the actual one. secondly, the area of the station in the new design is twice as large as the original plan in 20013," Mr. Gaberi told Mold-Street.

The ANSA chief also maintains that should he remain to run the Agency after 2013, the Leuşeni station were ready already in 2014 in the original design (with a smaller surface). It was decided later to improve the design. Gheorghe Gaberi assured that he would insist that CNA removed its report from the website. Finally ANSA signed a contract with Iasicon and Acar-Construct, whose final bid was 22.3 million lei (about 1.1 million dollars), plus one million lei for "additional services."

Iasicon is one of the largest construction companies in Iaşi, Romania, and Acar-Construct (Moldova) is owned by Ivan Cantarjiu. Acar-Construct ruined several projects related to construction and repairs of public buildings during the communist times, including the headquarters of the Moldovan president. In 2009 more than 100 million lei was pumped into the presidential headquarters but it is still in the works. Iasicon and Acar-Construct won contests held by ANSA in the past including the reconstruction of the Agency's new office building, which completed four month later than scheduled, in late December 2015.

In conclusion, the construction of the Leuşeni inspection station lasted for almost four years and cost almost 200,000 dollars above the budget. It's also true that the station has a larger area and uses better equipment. CNA insists that „of all the contracts concerning the construction of inspection stations where ANSA is the beneficiary not one had been completed by the deadline." ©

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Wasted Money! The 1989 Moldova Census is the Only Reliable Population Statistics

In 2016, the nominal GDP per capita in U.S. dollars should be 21.7% higher compared to the actual estimates released by the National Statistical Bureau (BNS), according to World Bank experts. This is just one of many indicators that need to be revised following the publication of the updated 2014 population census. The updates though don't seem to be enough to prompt any changes.

95,800 children present in statistics but living abroad

For example, on May 31, 2017, BNS released a report about the situation of children in Moldova; it says as many as 681,300 children under the age of 18 resided in the country as of the beginning of that year. In the 2014 population census the number of children aged 0-17 was 585,449, or about 96,000 children less.

BNS deputy director Ala Negruţa explains that the difference appears because "the data on children are based on the current statistics of the population, which resided in Moldova." She specified that "the information obtained in the 2014 population census (585,500) covers only the people who were present in the country at the time of the census, and the number corresponds to the size of the population de facto. "The difference in 95,800 children reflects the fact that these children were outside Moldova. Both figures are correct, they just mirror different demographic states," the official told Mold-Street.

Population decreases 100 times faster than official data show

According to the updated 2014 census report, the Moldovan population constituted approximately three million people – this is 11.4% less compared with the records from the 2004 census and 18% less compared to the records of the 1989 census. Of the total number around 210,000 people are not permanent residents. This fact should be a motive for a radical change in a number of economic indicators and public policies, according to World Bank economists who released the study "The 2014 Population Census and its Impact on Some Key Indicators." They suggest that between 2004 and 2014 the Moldovan population decreased on average by 1.2% annually; according to the BNS the annual decrease was just 0.01%. In other words, in reality the country loses residents 100 times more than official statistical reports say.

"Supposing a continuation of the population [growth] dynamic in these censuses, in the period 2014-16, the Moldovan population should be 2.921 million in 2016, compared to 3.55 million believed to be now (a difference of 21.5%) – as BNS claims – …influencing thus the indicators per capita and the place of Moldova in the global standing, says the study in translation by Mold-Street.com.

GDP bigger by 21.7%

In compliance with the new information on the Moldovan population the absolute levels and growth of statistical indicators per capita should be higher than we believed. The World Bank experts maintain that the following results need to be considered from the population censuses, compared to the BNS data:

> *1. In 2016, the nominal GDP per capita in US dollars should be 21.7% higher than BNS' estimates: 2,311 dollars against 1,900 dollars at present.*
>
> *2. In 2015, the National Gross Income per capita according to the Atlas Method should be 20% higher than now: 2,690 dollars versus 2,240 dollars.*
>
> *3. During the period 2004-2014, the real average growth of households' consumption per capita was 6.6%, which represented a difference of 1.2% higher than actual estimates.*
>
> *4. During the period 2004-2014, the real average growth of GDP per capita was 1.1 percentage points higher than BNS suggested: 5.9% versus 4.8%.*

Another outcome of comparison from the population censuses is a considerable improvement of Moldova's international rating. According to the data for 2004-2014, the real growth of GDP per capital in Moldova was above the average in Europe and Central Asia and above the level of countries with medium-large revenues. However, in spite of such an advance in global standing, Moldova's performance in absolute values per capita is among the lowest.

1989 population census provided the most truthful data

The World Bank economists call on Moldovan authorities to standardize the national statistical system in order to reflect the new realities. They admit that the Moldovan National Statistical Bureau does not master any appropriate methodologies and has not developed adequate capacities for collecting data on migration, and therefore it faces hardships in collecting vital information. Respectively, the results of the population censuses in 2004 and 2014 have not been covered in the current statistics.

"As a consequence certain reliable statistical data were obtained during the census in 1989. Meanwhile the new data on the [Moldovan] population may have produced implications on many aspects of the social and economic life, beyond the macroeconomic indicators per capita as discussed in the past and, as a result, on the decisions related to economic policies," reads an informal translation of the conclusion of the study.

Funding for health and education may reduce

The new study suggests that the findings may change public policies in the health and education sectors. The financing in these sectors depends on the number of patients and students, respectively. The authorities should also apply the new knowledge in the tax related decisions. And here is an alarming bell: the discrepancies amplify in time and therefore it becomes critical to to improve the accuracy and reliability of the statistical data.

The Moldovan authorities on several occasions expressed their readiness to collaborate with the World Bank and the United Nations Population Fund towards improving the quality of domestic statistical data on population by integrating the latest findings of the census into official data. Yet it's not clear when this process will start.

Incorrect data translate into incorrect policies

Economist Stanislav Madan, head of the market study and research department at Business Intelligent Services, a think tank, says that the population number and indicator per capita derivatives serve as a basis for numerous public policies. "Unfortunately, incorrect data can easily translate into incorrect policies, because very often the failure to plan leads results into the planning of failure," he said.

"The fact that BNS still uses the data on population from the 1989 census distorts the socio-economic reality. For example, erroneous data on population distribution according to the territorial principle may alter the fair allocation of resources for such sectors as healthcare, social assistance or education, and the balanced policy-making for regional development," the expert explained. Mr. Madan also sees two reasons of principle why the statistical authority needs to revise the indicators in the population census:

• *to have a more realistic estimate of the impact of public policies in the past and draw more relevant conclusions;*
• *to project more objective forecasts for key situations such as the Medium-Term Budgetary Framework or sectorial policies.*

Yet there is one more problem in this context – the public perception about the 2014 population census sends a limited credibility and this makes even harder to answer a fundamental question for the Moldovan state: "How many of us are still here and hoe many of us count?" ©

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Government Claims Prosecutors and Anticorruption Officers Found 59% of Stolen Billion

Until September 2016, the Anticorruption Prosecution Bureau and the National Anticorruption Center managed to track down and find the suspects in the case of approximately 7.7 billion lei, or 59% of the one billion dollars which had been stolen from the Moldovan bank system. This affirmation is contained in a report on implementation of the Moldovan Government Program Activities in 2016.

The document was shown by Prime Minister Pavel Filip at the Parliament session on May 26, 2017. The executive chief even spoke about measures aimed at curbing corruption and improving the justice, about approval of many new initiatives aimed at boosting the prosecution effort, about setup of a National Integrity Authority, and about establishment of two distinct prosecution offices for fight on corruption and organized crime, respectively.

Political corruption favored bank fraud

Mr. Filip mentioned that "some progress in this regard convinced the international partners for development" and described the conclusion of a new agreement with the International Monetary Fund as "a significant success" for Moldova. "It is certainly a very strong signal for the justice sector, for our efforts to reduce corruption in this sector. There've been investigations and sentences have been handed down, including to persons who act in the politics. Moldova has demonstrated that its judiciary sector is getting more and more efficient. I was happy to see that the public confidence in our justice system has increased; it's a signal that we are on the right track," the prime minister quoted the report as saying.

As of corruption in the political area, the report says: "The most resonant are the cases concerning the robbing of our bank system out of 13 billion lei, or approximately one billion dollars during the years before 2014, with the involvement of high ranking officials and their affiliates in the business community […]. Until September 2016, the Anticorruption Prosecution Bureau and the National Anticorruption Center (CNA) managed to track down and find the suspects in the case of approximately 7.7 billion lei, or 59% of the one billion dollars which had been stolen from the Moldovan bank system. Seventeen persons have been charged and are awaiting trial and some of them have been already sentenced," the governmental report reads.

CNA: We know only of around 4 billion

At the same time, the CNA report for 2016 says that the agency had tracked down an amount almost twice less than Premier Filip cited. Overall CNA officers have been working on cases envisaging the recovery of around three billion lei: 1.81 billion lei, 23.55 million dollars (some 462 million lei) and 32.4 million euros (over 712 million lei).

In the case of the Social Bank the amount of illegal loans stands at around one billion lei (459.9 million lei, 12.8 million euros, and 11.4 million dollars). There is not one word about the role of Unibank in the fraud in the CNA document. The same figures were shown by CNA in an informative note a year ago. Does it mean that the agency has found nothing ever since? The Government has not explained where it learned of 7.7 billion lei.

The money divided into 47 jurisdictions and at Chişinău airport

Not to forget that in late 2015, CNA director Viorel Chetraru said in the Parliament that by the time of his speech the agency had filed 44 criminal cases and of them 20 were ready for submission to the courts. „Overall the CNA is managing at this moment 24 criminal cases and of them 11 were filed for taking credits by means of deception, one case concerns the abuse of service, and four were filed for the poor management of the Savings Bank […]. The total value of the money we've tracked – just as the prosecutor-general mentioned – is 13.5 billion lei," Mr. Chetraru stated.

The CNA chief also noted that the agency had established the circuit of around 200 million dollars out of all the money stolen from the three Moldovan banks. Asked if there were any chances to recover the money, Mr. Chetraru said the following: "If we manage to get confirmation on the assets we have identified as procurements from that money, there is a chance to recover a large part of the money."

In this context he underlined that he strongly believed that a part of the money returned into Moldova. "A part of the money has entered back into the country including through the [Chișinău International] Airport. There are plenty of fields where the money had been invested." The Moldovan bank fraud is currently investigated by Kroll, an international intelligence and information management company. ©

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Who Is Preparing a New „Deal" of Millions with Public Money

A number of changes to the Pollution Duty Law which a group of ruling party lawmakers are pushing may drill out a hole of dozens of millions of lei in the public coffers. Although this legislation needs adjustments – it's actual version was adopted in haste and without bothering to gather feedback from the business community – the proposed changes contain "innovations" that would harm local producers to the delight of importers. At the same time using the Finance Ministry reports the presidential administration warned that the public budget would lose around 140 million lei in 2017 alone should the Parliament accept the new updates.

Legal sideslips

At the end of 2016, the lawmakers passed a number of changes to the way the environmental pollution duty was levied, as part of a law package designed to strengthen the fiscal and customs policies for next year. As usually, the job was branded as a move to adjust the national legislation to the European Union's legislative framework. The mission to levy the duty was taken away from the Customs Service and passed onto the Fiscal Service, and the payment period changed from the date of import to the 25th day of the next month.

The law says that the environmental duty shall be paid by companies and individual entrepreneurs who produce goods and/or import or purchase products in polyethylene or non-corrugated cardboard – with or without aluminum wrapping – from companies working on Moldovan territory but not paying taxes to the country. In less than two weeks the business community complained that instead of getting their work easier the new changes brought about an unnecessary hardship. The main problem related to the dual interpretation of the clauses and the higher size of duties. The authorities set out a flat duty of 2.0% for all businesses; until that move the duty had varied between 0.5% and 3.0%.

Dairy factories and importers learned overnight that they were obliged to pay 1 leu (0.05$) for a yogurt box, an unfortunate turn from a duty free running. Most of them angrily began re-writing their business plans and price policy. „Instead of investing in the production modernization, we suddenly have been forced to pay around two million lei in new duties every month. Where does the money raised from the pollution duty go, is unclear," explains Carolina Linte, chairwoman of the Moldovan Association of Dairy Producers and Processers.

The American Chamber of Commerce in Moldova (AmCham) described later this situation as “a sideslip away from the principles of predictability, sustainability and transparency in the decision-making process, including the lack of a regulatory impact analysis,” as these principles are enshrined in the Moldovan legislation in effect. It said the changes serve as an eloquent example that justifies the need to kickstart public consultations at all stages of adoption of regulatory acts.

Retroactive applicability

The Finance Ministry, the Economy Ministry, and the Labor Ministry organized two round tables with business associations in order to find solutions and rectify the legislation by eliminating the problematic clauses. But then things went wildly fast: on February 22, 2017 the Finance Ministry published a draft amendment to the law and in a week, on March 1, the document earned approval from the Government. In a matter of just two weeks the document finds a top spot in the parliamentary agenda and gets a smooth approval in the first reading.

Deputy Finance Minister Veronica Vragaleva argued before the Parliament that the new amendments to the pollution duty legislation “aimed at streamlining the methodology of applicability of the environmental duty on multiple packaging.” In her opinion, there was “a problem with the identification of payees [of duty] in the context of multiple packaging; the amendments contain a solution and in fact repair our legal framework by aligning it to the E.U. directive on environment pollution duties, which calls for the enforcement of duties on primary packaging only.” Now that things are clearer, the official specified, the government should reinstate the environmental duties to the range between 0.5% and 3.0%.

Another important aspect in the amendment concerned the exemption from duty for packaging for medicines and certain goods that is used as raw materials to fabricate other goods. But the cherry on the top is the clause stating that the changes had to be applied retroactively, since January 1, 2017. "There’s a decision issued by the Constitutional Court, which has enshrined the principle of non-admission of retroactivity towards any laws. At the same time, the Constitutional Court issued a number of decisions that leave open the possibility of retroactive effect in the case of certain laws, and the stance of the Justice Ministry reflects exactly the stance of the Constitutional Court,” Deputy Justice Minister Nicolae Eşanu said.

Finance Ministry, Fiscal Service in “disability of action”

In spite of numerous objections and criticism, the majority of lawmakers passed the amendments in the first reading but scheduled a second vote a week later. On March 24, 2017, the Democratic majority adopted the whole document, though with new changes. One of the arguments why the process galloped so fast was that both the Finance Ministry and the Fiscal Service “have surged into a disability of action” – as colorfully explained Violeta Ivanov, head of the parliamentary commission for public administration, regional development, environment and climate change.

Her counterpart in the commission for economics, budget and finance, Ștefan Creangă, is skeptical: “We are today on the day of 24th and we won’t be on time to publish [the document] on [March] 27th so that the changes take effect as you thought. Do you really believe we need this law right now?”

Same pollution, different duties

Communist Oleg Reidman requested more time to review the draft and pointed out to “dubious” clauses regarding the taxation for packages for liquids but exemption for packages made of cardboard. Speaker Adrian Candru reacted immediately by accusing Mr. Reidman of “lobbying for certain interests.” He said, “We know very well how much lobbyist pressure comes from everywhere… in order to keep this document grounded.” In fact however the limits of the duties for packages do not represent the negative impact on the environment by those packages, because they fail to fairly set out duties for pollution in the same measure.

140 million lei at stake

The rapid progress on pollution duties issue however stopped at the presidential administration. President Igor Dodon refused to sign the draft into law and asked the Parliament to re-think certain aspects. He particularly feared that in the form he had received the document it would harm local producers and favor importers unjustifiably. The decision to change the size of pollution duties not only lays out unfair competition grounds but would also cut down the revenues to the public budget because the duties would not be collected for the period between January 1 and the date of enforcement of the law.

The president's office counted around 140 million lei in losses in 2017 alone as a result of enactment of the pollution duties changes, based on the figures from the Finance Ministry. Uncertainty around the issue has prompted a number of companies to deliberately import goods in highly pollutant boxes in order to shrink from payments before the changes to the law take effect. On the other side, there are domestic producers who export their own products and do not harm the environment but get a slap from the government. ©

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Major Terror Risks at Chișinău Airport; Customs Warns of Security Flaws

The consecutiveness of exit checkups at the Chișinău International Airport runs against the international security norms and the European practice, the Moldovan Customs Service says in a public note. The document released by the Customs Service reviews the current consecutive order of checkups:

> *1) Customs clearing for the crew, passengers and luggage. Whenever necessary the officers from the Public Health Supervision Service, or the Phytosanitary Quarantine Service, or the Veterinary Service may join the inspection process.*
> *2) Border Police verification.*
> *3) Aeronautical security inspection, which is carried out by the Border Police.*

Danger of terror and fraud

"The current-day chronological order for leaving the country poses numerous hardships and problems," the Customs paper runs. It identifies a failure to secure the area where the inspection agencies run their daily control of passengers and luggage as the security checks happen after the border and customs verifications. "This fact may encourage terror acts in the respective zone," the Customs claimed.

Another threat according to the Customs Service is represented by the losses in revenues for the state. "Persons who are not registered de factor by the Border Police as leaving the country may obtain confirmation of the VAT restitution, which entitles them for illegal award of the VAT," the note reads. Press reports quoted lawmakers and experts as saying that certain public institutions and state-owned companies including the Chisinau International Airport have been involved in the trafficking with cigarettes, anabolic substances, and other prohibited items – at large scales.

Breach of confidentiality during the customs inspection

The customs authority also complains of the failure to introduce the red and green channels at border crossings in order to streamline arrivals and ease the officers' work while improve passengers' comfort. It also finds it difficult to run the documentation of frauds on the ground that the intention to leave the country is yet not a done and registered fact.

The current state of things fails to ensure the confidentiality of the customs inspection of passengers and luggage, because the operation is done in a public place and outside the inspection zone, ahead of the border and security checks. "In compliance with the European practice all passengers and hand luggage heading towards exit through international airports must first pass a security check, then a border control, and finally the customs inspection (in order to prevent shipping prohibited items into the verification or restricted areas). “In this context, we remind that the experience of most airports in the European Union set out for an order that is opposite to the one used in Moldova, and namely: the security check comes first, the passport verification follows, and the customs clearance at last," reads the Customs Service note.

The authority suggests changing the order of border crossing controls and the stationing of servicemen at the Chișinău International Airport. The change would also provide more information for a risk analysis for customs officers. In the same note, the Customs Service suggests the following order and services to be engaged for leaving passengers and luggage:

1) Aeronautical Security Service – security checks;
2) Border Police – passport verification and border crossing control;
3) Customs Service – customs clearance.

Such changes are based on the recommendations from the European Union Border Assistance Mission for Moldova and Ukraine, which have been supported by a high ranking EU advisor and by the prime minister, the Customs Service said. At the same time, the Chișinău International Airport administration assures that security remains a top priority for its services. “At the entry into the airport building there is a preliminary control for all visitors including a [visual] screening by Profiling Service agents, metal detectors, verification of belongings and a personal control, if necessary. These measures are designed to ensure your safety both inside the airport premises and aboard aircraft,” the main Moldovan airport said in a press release on its website.

Who runs the airport?

The Chișinău International Airport has been conceded in August 2013 to Avia Invest SRL, a company with Russian and Moldovan interests that is run via offshore companies. It is bound to complete an ambitious modernization plan at the airport including its security program. Almost four years later the Government has learned that the largest part of Avia Invest’s investments came from fees and credits rather than own resources. ©

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What Kind of Cigarettes the Filip Cabinet Smoke? Why Is Moldova Flooded with No-Filter Cigarettes?

Incoherent tax policies over the past few years have encouraged a significant growth of imports and share of cigarettes without filter in the Moldovan market. The effect of those policies is the failure to collect millions of lei in the state budget and - worse - the increasing threat to the public health. In the first four month of this year the imports of cigarettes without filter have grown about three-fold, a Finance Ministry report claims. At the same time the imports of cigarettes with filter have decreased more than 41%. The domestic production of cigarettes of any kind however has received the worst blow - it dropped 2.5-fold compared to the same period of 2016.

A hole of millions

As a consequence the state of Moldova has missed already around 100 million lei, plus another 300-400 million lei by the end of 2017. One should blame the ambiguous tax policies, which under the excuse of protecting consumers and keep the prices low, targeted the cigarettes with filter rather than those without filter any time it was about increasing the duties. In attempting to curb down the invasion of imported cigarettes without filter, the authorities decided to revise the size of excises for these products.

Currently Moldova applies a specific duty of 120 lei (6$) per 1,000-piece pack of cigarettes without filter, and a 3-fold larger duty in the case of filter cigarettes, 360 lei. In addition, an ad-valorem duty of 12% is levied from sales of filter cigarettes - which does not exist for cigarettes without filter. The draft paper on budgetary-fiscal policy for 2018 suggests an "accelerated taxation of cigarettes without filter starting year 2018." In compliance with this document, the duty for cigarettes without filter would increase three-fold in 2018 compared with just 30% as planned earlier: from 120 up to 350 lei per 1,000-piece pack; it's going to hit 540 lei in 2020. It is also suggested to introduce a 3% ad-valorem component for cigarettes without filter starting 2018 and in 2019 it could jump to 6% and in 2020 up to 9%.

At the same time the duties for filter cigarettes would continue to climb up to the minimum established in the European Union Directives - 90 euros (1,840 lei) for 1,000 cigarettes - and the need to secure a growth in the budget. The ad-valorem duty would increase by 1% to 13% and the fixed quota from 460 lei up to 540 lei per 1,000 cigarettes in 2020. The Finance Ministry estimates that these measures on tobacco products would pour an additional 239 million lei into the public coffers in 2018 - if the Parliament turns a deaf ear to the tobacco industry lobby.

Filip Government: cigarettes without filter are "social products"

Economists warned a year ago that the Government lead by Pavel Filip referred to cigarettes as "social products" rather than align itself to the size of duties at the level of the region. "The authorities in fact show that the cigarettes without filter are a kind of products of first need and therefore they must be accessible by costs. It is obvious that maintaining low prices contravenes the anti-smoking policies. "Also, in compliance with the obligations assumed by Moldova towards the E.U. by 2025 the excises per 1,000 cigarette pack should reach 90 euros. There's credible evidence that the Moldovan Government has no plans whatsoever to take those obligations serious. The excise [for cigarettes] needs to grow around 8-9 euros per 1,000 pack every year in order to match those obligations," says Dumitru Budianschi of Expert-Grup think tank in an analytic paper.

Duties and effects

Konstantin Krasovsky, a consultant with the World Health Organization, was quoted as saying in late 2016 in a study titled "The Tax Policy on Tobacco Products in Moldova" that the country enforced a very soft policy on tobacco excises in 2010-2013, a period when the average regional excise on tobacco products increased 10-fold. This policy has produced the following consequences:

1) revenues increased 8-fold in four years;
2) substantial decline of contraband from Moldova;
3) low access and consumption of tobacco products.

"With all these since July 2013 Moldova has changed Moldova has changed its policy towards excises by adopting moderate gains. As a consequence, in 2014-2015 there had been almost no growth of revenues and the contraband with cigarettes began growing along with the access to tobacco products. In 2016 the excise again increased, though not too much. If the existing policy that encourages slow excise growth survives then the real revenues (adjusted to inflation) from excises will only rise if the consumption of tobacco products increases in Moldova and/or in the region (thanks to the contraband from Moldova)," the WHO expert goes on.

Mr. Krasovsky claimed that Moldova may re-activate the 2010-13 policy on tobacco excises in order to secure more revenues and diminish smoking. "If in 2017-25 the size of the specific excise grows by 20% a year and the size of the ad-valorem excise grows by one percentage point, in 2025 Moldova will hit the European Union's minimum size of excise. For Moldova this move will be beneficial for the following reasons:

• *Additional revenues from the tobacco excises - around 750 million euros in nine years.*
• *Substantial reduction of the cigarette contraband from Moldova with a little probability of any contraband growth into Moldova thanks to similar or higher prices.*
• *Diminishing access to tobacco products given the declining consumption and improving public health," the expert argued.*

However the Parliament passed a significant difference in duties among the types of cigarettes and the Government now finds that the outcome would be dangerous for the public budget.

The decline of internal production

According to Mr. Krasovsky's estimates, during the period of 2003-2008, the total sales of cigarettes were rather stable (8-9 billion pieces) and the cigarettes made in Moldova were pushed gradually out of market by imported ones. In the next period, 2009-2010, the sales increased sharply up to 10.7 billion cigarettes a year that were sold in Moldova in 2010-2011.

The growth of cigarette sales in 2009-10 and the decline of sales later cannot be explained by the change in the access to tobacco products or other factors of internal nature. The best credible explanation is the flourishing contraband of cigarettes from Moldova, via the neighboring countries - Ukraine and Romania. Since 2012 Moldova has experienced a rapid decrease of sales of cigarettes in its market. The internal production of cigarettes has decreased five-fold: from 6.2 billion pieces in 2011 down to 1.1 billion pieces in 2015. ©

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The Battle for the Academy or what is the Fortune of Moldova's Establishments of Sciences

On the date of July 10, the Moldovan executive approved for review a draft bill for amending the Code on Science and Innovation and the Code of Education. The document says all of the scientific and research institutes under the Moldovan Academy of Sciences (ASM) move under the Ministry of Education. „The project sets out a new way for administration and funding of research and innovation. For its implementation we will need this year around two million lei and we estimate that the reorganization would bring a benefit of about nine million lei… This year some 150 million lei has been set aside for research projects and upon completion it will be possible to disburse 300 million lei," says Iurie Ciocan, director of the Reforms Implementation Center, a governmental agency.

Education Ministry takes over research policy and institutes

The draft states that the Ministry of Education will be in charge with the policy-making in the research area. In order to tighten the quality in the educational field, three education and research assessment institutions need to be consolidated, it goes on: the National Agency for Professional Education Quality; the National School Inspection; and the National Board for Accreditation and Attestation. The ASM board would consist of 15 researchers elected in open competition – other than current ones – and the heads of departments would automatically become deputy chairs of the Academy, under the proposal. They would be elected by a 3/4 vote of the department members. The present board would exist for until its mandate expires.

Reform or fatal mistake?

Many academicians have criticized the Government's plans. For example, Mr. Teodor Furdui, chairman of the Staff of Academicians, published an open letter on the name of Prime Minister Pavel Filip. He demanded a halt of this "hasty" reform, which was never coordinated with the scientific community and described it as "a fatal mistake which would finally paralyze the scientific activities" in Moldova.

ASM President Gheorghe Duca attempted during the cabinet meeting to obtain a review of the version tabled by Mr. Iurie Ciocan. He said an eventual approval would be a hasty decision and would change dramatically the concept of research and the Academy of Sciences as the body that governs sciences. Mr. Duca also asked about the fate of the Scientific Library, of the Botanical Garden, of the ASM Lycee and University, arguing that in many countries these kinds of establishments belong to research institutes.

Mr. Ciocan replied that those establishments would be transferred to the Ministry of Education and the ASM would remain a public institution though it would be stripped of the right to control other establishments.

ASM members would no longer be considered public functionaries, he stressed.

Academy has no business in property management

The ASM president tried to defend the need to keep at least the Scientific Library and other fundamental research hubs but Prime Minister Pavel Filip interrupted Mr. Duca by saying that “the cabinet is not a club for public discussions” and that the academician had enough time to submit his objections regarding the new reform. "What we are trying to say is that the Academy should care for sciences but not the management of buildings. This is a technical business and we want to spare you from it. We’ll give this job to those who can do it very well. Thanks to this change we’ll be able to double the funding for research," the premier stated. Mr. Filip promised the research community to provide for a sufficient financial support.

The premier also reproached the ASM president for a recent initiative to build residences on a plot of 2.8 hectares near the Scientific Library, as part of a public-private partnership. “This is none of your Academy’s business,” the executive chief said. The prime minister’s remarks suggest that one of the goals of this reform isn’t just about the optimization of costs but also the deprivation of the Academy of its properties.

Academy with a fortune of billions

The properties of the Moldovan Academy of Sciences are quite sizeable. The latest assessment, at the end of 2015, showed that ASM controlled buildings, land and equipment worth around 1.3 billion lei via the 26 establishments under Academy’s supervision. Mind that this isn’t a market value assessment. The total area of buildings under ASM administration constitutes 129,581 square meters of which only 8.862 square meters has been leased.

Most of the buildings were erected in the 1950-70s. Some buildings are worth ten times more than the official registers indicate. For example, the headquarters of the Academy at 1 Stefan the Great in the capital covers 15,581 square meters and is worth at least 430 million lei.

Not to neglect the fact that the research establishments own around 667 hectares of fields, mainly around the capital and some of them are located very attractively for developers and speculators. Under certain circumstances some fields get lost. For example, the field for trial of high tension systems of the Energy Institute has been seized for sequester by a court over electricity debts. The field was later sold at a public auction in 2002 to an unnamed individual. The field near the Chisinau Zoo had been re-sold several times before being grabbed by a local millionaire. The Energy Institute of ASM had tried to recover the land (5.5 hectares) and the buildings on it without any luck.

The Academy has tried lately to make some use of its fields by building residences for researchers there, in partnerships with private firms.

A late reform

The reform of the Academy and the entire research sector is badly needed, without any doubt. During the past 26 years of independence the number of Moldovan researchers dropped 5-6 times: from 25,000 in 1990 to just 5,000 in 2014, and only 3,000 currently. Half of them are working in academic establishments. One of the reasons is the dramatic cut in funding. Another reason is that the Moldovan sciences had been for a long time part of the Soviet scientific system, which was conceived and built on the centralized command mechanism. The dissolution of the Soviet Union tore the linkages and melted the already scarce finances.

Also, the main research trends in Moldova had followed the needs and orders in Moscow. There had been a few reform attempts but none could be called a radical measure. In 2016 when the Academy celebrated the 70th birthday of the first Soviet-style research institutes a group of European specialists completed a study about the present-day sector of research, development and innovation in Moldova. They focused on the following aspects:

1) Increasing the efficiency of public R&I funding and the quality of the R&I performing bodies

and instruments;
2) Improving the policies for human resources and mobility of researchers;
3) Boosting business innovativeness and science-business links; and,
4) Increasing R&I impact by properly defining the policy instruments.

The group formulated 24 operational recommendations for the research reforms; it is not clear whether any of those recommendations had been taken into accounted by the writers of the initiative. The version of the concept that is live in the Government's website isn't the final one and not even the one approved by the executive – Iurie Ciocan himself has admitted this fact.

Scarce resources for the reform will reduce its success chances

According to the E.U. experts, the Moldovan authorities need to match the ambitions of the reform with the size of funding and to set out the ministerial responsibilities concerning the drafting of policy and strategy in the research and innovation area. Their report, titled "Peer Review of the Moldovan Research and Innovation system", calls for a strong support for the R&I policy in order to elevate it to a level comparable with other development policies. This new ministerial responsibility needs to be consolidated and updated by setting up an independent implementation agency for R&I under the ministerial supervision.

The experts also called for maintaining the present-day research capacity of Moldova as located in its research institutions, underlining that this is a worst minimum, and recommended to increase the spending for R&I in the medium term. They believe the reforms may produce a positive outcome given the proper funding in order to let the country seize maximum from its economic potential. The report states that investments without the reformation of the R&I system or the reformation of the system without more generous funding would produce marginal results only and for a short time.

The Moldovan Academy of Sciences has complained over the past two years of severe cuts in the funds for R&I. In 2016 for example the budget for science stood at 336 million lei – that is around 100 million less than in 2015. The budget for 2017 accounts for 351 million lei; half of this amount is entitled for wages. ©

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Real Estate Fraud. Three Persons Cheated Dozens out of Money and Homes

Three persons acting as administrators and founders of Galsam Service SRL company will face charges in a court of law for cheating 21 investors out of more than 14 million lei. They took the money for construction of the residential complex ”Palms and Stars” at 8 Ginta Latina Street in the capital, Chișinău.

All three defenders are members of a family. Galsam-Service SRL was registered on November 11, 2002 and counts five associates: Crăciun Galina (21.42%), Crăciun Sorin (14.28%), Ichim Eugeniu (35.71%), Ichim Tatiana (14.28%), and Ichim Dumitru (14.28%). Ichim Eugeniu is the formal administrator while Timoșin Maxim is in charge with the bankruptcy procedures for which the company filed in 2015.

Fraud, embezzlement and tax evasion

The case is run by the Office of Prosecution for Organized Crime and Special Causes (PCCOCS) jointly with the Criminal Investigation Department of the Interior Affairs Ministry. The National Investigative Inspection too has its part in this case. According to prosecutors, the three have been formally put under charges of fraud, embezzlement and tax evasion in large scales. If found guilty, they would spend between 8 and 15 years in prison.

More than 100 million lei collected

The affair happened in 2007-2015, when the three acted as founders and administrators of Galsam Service SRL and promised a Palms&Stars at 8 Ginta Latina Street in Chisinau. According to Valentin Samoilă of the General Police Inspection, the suspects started building two residential blocks, one of which (Palms) has been 70% completed and the other (Stars) is just a few storeys in becoming.

"Our investigations have demonstrated that these persons had collected around 115 million lei from people who wanted apartments for themselves in the new residential complex. Two thirds of the money was declared as used for construction and the rest was spent for various purchases: 15 million for luxury cars - Jaguar, Range Rover, BMW, Mercedes etc. Another 15 million to pay off old debts towards the banks," the officer said.

The police found that many apartments had been sold to more than one buyer and each investor was charged between 20,000 and 50,000 euros. None of transactions or apartments was registered with the Cadastral Office. More than 400 investors were cheated out of 4 million euros.

Who promised Palms and Stars

A real estate portal called La Etaj reports that Galsam Service SRL was the developer of the Palms and Stars complex. In 2014 the company announced that its partner IKI-Invest Grup SRL will continue the project but Galsam Service SRL will retain the status of chief entrepreneur and will bear full responsibility for all contracts signed. IKI-Invest Grup SRL was registered on May 30, 2014 by Crăciun Galina (94.59%) and Ichim Tatiana (5.40%), who are also among the founders of Galsam-Service SRL. A part of the assets and accounts owned by IKI-Invest Grup SRL was under sequester.

Over 30 apartments sold (and resold) several times

Sixty families have already moved into new apartments in the Palm residence block, which has not yet been accepted for use by the authorities. They recently received notifications for evacuation from the bankruptcy administrator. The police also pointed to the repeated sale of same apartments – 2-3 times – and sources say that a leasing company has re-sold more than 30 apartments more than twice.

Nor is there any construction permit for the Star residence block. Police sources say a group of high ranking officials are behind the Palm and Star residence business. Meanwhile buyers have filed suits against each another to retain the property rights on their bad investments.

Why the authorities keep silence

Lawyer Lilia Gherman from the Chisinau Bar Association said that “many investors have paid a big deal of money without bothering to ask for a contract confirmed by a notary officer or registering their estate with the Cadastral Office, since the beginning of 2016.”

"Besides the fact that Galsam Service violated the legal provisions that prohibit the acceptance of payments without a notary consent or cadastral registration, this company has denied to hundreds of people the possibility to validate their rights as guaranteed creditors during the bankruptcy process which the State Tax Service has filed for," the lawyer stated.

Mrs. Gherman also wonders why the competent authorities – particularly the State Inspection for Construction – “only put for its record the violations committed by Galsam Service such as unauthorized construction on a field that was seized by abuse, but moved not one finger to protect effectively the rights of investors.” She also complained of “ineffective solutions” which Moldovan judges identified in the case of this company: a court decision (Riscani Court; August 2013; Case # 4a-2646/13) to fine Galsam Service 7,000 lei and demolish a multi-floor car parking, as well as the decision (Centre Court; January 2014; Case # 2e-1937/13) to withdraw its license for construction activities.

Creditors come together

And the creditors too come together. The families who trusted the crooks announced that they would gather on July 22, 2017, at the Ciocana District Office to learn the conclusions of the bankruptcy administrator and to hear the leader of the creditors. The creditors also want the companies Galsam-Service SRL and IKI-Invest SRL to merge. "The agenda contains decisive issues for the fates of both cases, therefore we strongly advise you to be at that meeting," organizers said in the notice. Other two meetings in the past failed because of the lack of quorum. ©

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Why the Most Important Project for Moldova Works at Just 0.2% of its Capacity

The technical design proposal for construction of the Iași - Ungheni - Chișinău gas pipeline will be ready within weeks and by the end of 2018 it should become fully functional, Moldovan Premier Pavel Filip shared his optimism at a meeting with his Romanian counterpart Mihai Tudose on July 21. "We've talked about a strategic project for both of us – the construction of the gas pipeline Iași - Ungheni - Chișinău. This is about the independence and security, or better said – the energy security of Moldova and, from this point of view, we have agreed to move very fast with this project. The technical design proposal will be ready within a few weeks and we hope to have the pipeline functional by the end of 2018," Mr. Filip stated.

Steps on the spot

This is a new deadline, very optimistic, for completion of a strategic project that would cost more than 100 million euros. Where does this optimism come from? – it's not clear since no tangible progress has been seen in this regard lately. Only last Friday, July 21, the Parliament passed a law that ratified the loan agreement with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank under which Moldova would receive 82 million euros (41 million from each) to finance the works.

The agreement states that the construction of the tube is a national priority project and clears the way for a simplified expropriation of properties along the route. An auction is expected to follow according to the established procedures, therefore it is unlikely to see the project kick off this year.

Systemic problems

Four months ago Deputy Prime Minister Octavian Calmâc himself observed a number of systemic problems in the way of implementation of large-scale projects including the procedure of expropriation of privately-held fields and the issuance of necessary certificates. Mr. Calmâc, who is also the minister of economy, was quoted as saying then that "the technical design of the pipeline Ungheni-Chișinău would be ready by the end of August [2017] and construction is slated to start in December 2019." – One year later than Prime Ministers Pavel Filip and Mihai Tudose promised.

This is not for the first time when the deadlines move forward with regards to this gas pipe. The first bird was expected in 2016, then in 2017, and now either December 2018 or December 2019. The first portion of this pipe linked the Romanian city of Iași and the Moldovan city of Ungheni; it was completed several years later than planned, in August 2014 and became functional only in 2015.

26-million-euro pipeline used at 0.2% of capacity

Imagine a pipeline of 26 million euros buried not too deep in the soil that is used one or two days a year at 0.2% of its capacity. Romania. Via OMV Petrom Gas, has sold a bit more than two millon cubic meters of natural gases, in spite of the fact that the pipeline can provide a maximum debit of 60,000 cubic meters per hour or around 525 million cubic meters a year. This is half of what Moldova needs, without its breakaway enclave. In other words, the volume of gases that left Romania for Moldova – more exactly for Energocom SA, a partner of OMV Petrom Gas – is only 0.2% of the pipeline's maximum capacity and just 0.1% of what the Dniester right bank Moldova needs. It's nothing.

The main reasons are cited the existing technical conditions and configuration of the Moldovan gas transportation system, which limits the maximum debit that can be swallowed by the operator Vestmoldtransgas to 10,000 cubic meters per hour – and only several days a year, because the methane can be furnished to several settlements in the Ungheni District.

Cheap gases from Russia

In fact, this is not the main issue with this strategic project. The biggest challenge for it in the future is its efficiency, given that Russian natural gases are cheaper than Romanian gases, or gases from elsewhere. From the very beginning, it was assumed that the methane from Romania would be cheaper than that from Russia. This was true in 2015 when OMV Petrom Gas sold gases at 423 lei cheaper (per 1,000 cubic meters) than Gazprom's. In 2016 however the situation reversed and OMV Petrom Gas charged 450 lei more (12%) than Gazprom.

This year the difference is even wider: over 1,000 lei per 1,000 cubic meters. In the first quarter of 2017, for example, the Russians charged around 146 US dollars per 1,000 cubic meters of natural gases while the Romanian operator hopes to collect almost double this price. If the current oil and gas prices remain in effect, then Russian methane will continue flowing into Moldova and there will be no economic interest in importing more expensive Romanian gases. "For a commercial recovery of the project we need to receive cheaper gases from Romania compared to Gazprom's tariffs," Moldovan Deputy Economy Minister Valeriu Triboi was quoted as saying in 2016.

Specialist estimates show that the Romanian natural gases need to be at least 20 euros (420 lei) cheaper at the border in order to qualify for the importation of 360 million cubic meters a year or 13 euros (273 lei) in the case of plans for 600 million cubic meters a year.

Moldova and Romania "moving like the eye of the dead"

Ana Otilia Nuțu, a public policy analyst on energy matters at the Romanian think-tank Expert-Forum, says that the pipeline "only provides for some alternatives, both for producers and for buyers" and gives a sense of energy security, but it makes little economic sense. "I believe it deserves [to be completed] for the simple reason that no one can blackmail you with gas cuts," Mrs. Nuțu told Mold-Street, adding metaphorically that both sides, Moldova and Romania "are moving like the eye of the dead" in achieving their goal from the project.

Many other experts agreed in the past that the project serves a geopolitical objective rather than resolves any economic targets. Not to forget that Petrom and Exxon have found gas reserves estimated at some 80 billion cubic meters in the Black Sea and Moldova is a close market for the gases extracted near the Romanian seaside. The inter-connection and consolidation of the Romanian gas network would be beneficial for pumping these energy resources to European Union countries and to Moldova as well.

One should not forget the interests of Gazprom, which wants the project to fail and is able to block it. Take into consideration the fact that Gazprom is still the largest shareholder in MoldovaGaz and Moldova's debts for gas consumption are enormous. Either way, "the most important project for Moldova" as former Romanian Premier Victor Ponta lovely called it in 2015 remains an initiative that looks good in the mouths of politicians in Moldova and Romania, but has gotten little luck in reality.

E.U. pays for Moldova's gas security

The overall investment for the Moldovan portion of the project is assessed at 113 million euros, of which 93 million has been secured from grants and loans from the EBRD, EIB, and the European Commission. The rest is expected to come from the E.U. as well. Given that 85% of the cost of the pipeline Ungheni-Chişinău would be covered from EBRD / EIB resources, it is hard to guess when the loans would be repaid, unless if Moldova buys a large amount of gases from its neighbor.

At the same time, Transgaz should develop the transport infrastructure on the Romanian territory in order to have an adequate transportation network especially in the Iași county area and to ensure the working of the pipelines at its full capacity. The company needs to link Onești with Gherăești and Lețcani with a pipeline totaling 165.15 kilometers and build a gas compressing station at Onești and Gherăești. These activities on the Romanian side would cost another 100 million euros and Transgaz is running a program for attracting of European grants to do this job. ©

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Twenty-Nine-Million-Leu Road Built By Gamreţchi Is Getting Pits

One of the maga-projects which the Chirtoacă-Gamreţchi team in the Chisinau city administration started three years ago is a road linking the capital with the village of Humulești. With a length of six kilometers and a width of seven meters, the road is already decaying in spite of the fact that it was never completed. The road begins on a heal not far from the crossing of streets Industrial, Uzinelor, and Lunca Bicului, near the headquarters of Lusmecon Company. Right after the temporary waste dumping site in Bubuieci where all the garbage from the capital had been stored a month ago.

New road with fresh pits

A road sign warning that vehicles up to 12 tons may only use the road suggests that a new road begins there. Covered with asphalt for a year and so, the road still looks good but walking some more than one kilometer one could see the first pits, near a sidewalk towards an orchard field. On that very spot builders laid down the asphalt in November and December 2016. The pits can be located 100-200 meters from each other. Yet not large, they are likely to expand in the autumn and winter. After 2.7 kilometers the asphalt layer ends although there are still more than three kilometers till the entry in Humuleşti. The road continues with a mixture of gravel, sand and clay.

Some approaching motorists warn others about the state of the road by blinking the headlights. It's still okay to drive there now, says a driver who gives us a ride to the village, but it will be difficult to get there during the autumn and winter time. He hopes that the builders will be back to finish the job. "We've got lots of hopes about this road. We want to drive easier towards the capital, where we work, and to see our village more attractive for other prospective residents. The government now says there's no money left to finish the road," says the driver, who refuses to tell his name.

Where 29 million lei was buried

There's been three years since an auction was held to select a contractor for the building of the Humulești-Chișinău road. It was planned to be six kilometers long and seven meters wide. After a tricked auction on August 11, 2014, the municipality's General Department for Public Transportation and Communication (DGTPCC) signed a contract with Utiltrans Construct SRL for 23.93 million lei. The document provided for nine-month labor but after 35 months the road is still far from completed.

And there's more! DGTPCC signed another two contracts to increase the costs of the project up to around 29 million lei (+20%), citing the need to do extra work at the site. At the end of last year when the work was still carried out, DGTPCC director Igor Gamreţchi told the press than additional resources would be flown to the project in order to cope with "additional labor." Mold-Street.com tried for days to reach Oleg Poiată, the new head of DGTPCC, but he never answered the enquiries, saying he was busy.

Criminal charges for abuse of office

This case is the topic of an investigation at the National Anticorruption Center (CNA), a police taskforce, and the Anticorruption Prosecution Office. In early March 2016, CNA filed criminal charges for abuse of office involving a number of functionaries in the General Department for Public Transportation and Communication, in complicity with Utiltrans Construct management. The two agencies found that "the DGTPCC functionaries had favored Utiltrans Construct at the auction and used their position to award unfairly the contract to this company for a project that envisaged the building of a local road linking the Ciocana District of the capital with the village of Humuleşti." Mr. Gamreţchi claimed that no wrongdoing was committed during the auction. “In choosing the bid we didn’t look at the lowest price only but also sought to have the most advantageous offer from the economic point of view,” the defendant said after his arrest.

Meanwhile economists at Expert Grup Center, a think tank, say in a study that Utiltrans Construct is a bad reputation company and one of its founders - Financial Investment Group - had been involved in dubious transactions. A second founder, from Romania, has been in a deep decline and employs only two persons. The existence of hidden interests in this project is confirmed by other contracts as well where Utiltrans Construct’s second founder (Financial Investment Group, 45%) is part of the deal. In October 2016, CNA started legal proceedings on suspicions of bribe-taking against DGTPCC director Igor Gamreţchi. The same day, CNA filed charges on bribe-giving against Financial Investment Group administrator Liliana Ţurcanu.

Gamreţchi is saved by a prosecutor

The two cases are closely related with another criminal file. Law-enforcement officers established that soon after the selection of Utiltrans Construct as the winner of the contract for the Humuleşti road building project, Financial Investment Group sold five buildings at 2 Uzinelor Street to Eugenia Stoicev – Mr. Gamreţchi’s mother. The buildings with a total area of 900 square meters were sold for just 60,000 lei. The cadastral certificate from December 2014 shows a different value: more than 1.12 million lei – this is 19 fold more than the sale price.

Officer Mariana Botezatu from the Anticorruption Prosecution Office had managed that case (see the investigation here). Her findings however never reached a court of law. Mrs. Botezatu hid the dossier and pretended to forget about it. As the prescription period expired, Igor Gamreţchi walked out clean and safe from this transaction.

Tricked auction for parking lots in Chişinău

The head of DGTPCC was arrested on April 25, 2017, by anticorruption prosecutors for his role in the tricked auction for construction of paid parking lots in the capital. The case against Igor Gamreţchi was separated from the dossier where among the suspects the public saw Chişinău Deputy Mayor Nistor Grozavu, notorious businessman Alexandru Pincevschi, and the managers of three parking companies. Mr. Pincevschi is believed to be the shadow mastermind of the plan and controlled several bidders.

The prosecuting authority announced that Igor Gamreţchi signed a deal in return for a milder punishment. He may be ordered to pay a fine of 300,000 lei or spend seven years in prison. Prosecutors say Gamreţchi’s testimonies gave solid evidence against his former school buddy Dorin Chirtoacă, the mayor of the Moldovan capital, who is hunted by prosecutors for abuse of office in the same case with the parking lots. As for the road that links Humuleşti to the capital it is clear that new funds are necessary to finish the project. It is also necessary to investigate why it takes so long to complete this project and who must be held responsible for the delay. ©

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First victims of new subvention rules. Eight big companies may no longer reach the money

The Moldovan Agency for Interventions and Payments in Agriculture (AIPA) has blacklisted four large agricultural producers which no longer may qualify for agricultural subsidies. Specialists largely support the AIPA’s decision. AIPA defends its decision with the new rules for subventions (called “The regulations regarding the conditions, the order and the procedure for allocation of resources from the National Fnd for the Agricultural and Rural Development”), which took effect at the end of June 2017.

Crossed the limit of 9 million lei in three years

Clause #9 from this documents provides for the following: "The applicant for subsidies who in the past three calendar years received overall nine million lei from the state may no longer request any governmental support for the same purposes under these regulations." Ceteronis-ST SRL, owned by Steliana and Vladimir Davidescu, is heading the list of subsidy applicants who are denied the governmental support for agricultural business. With around 4,000 hectares of fields – especially in southern Moldova – Ceteronis-ST is one of the largest agricultural producers and vineyard owners. It harvest technical and table grapes, peaches, nectarines, plums, apricots, and sweet cherries. The company exports its produce to Russia, Ukraine, Belarus, and European Union countries.

According to AIPA, in 20014-2016 Ceteronis-ST SRL received 19 million lei from the government in subsidies. Vladimir Davidescu, a co-owner of this company, has not responded to enquiries about AIPA's decision.

Ex-lawmaker, a subsidy champion

Ceteronis-ST is followed by Aidin SA from the Gagauzian autonomy, which received more than 17.5 million lei in subsidies during the same period. Its owner, Grigorii Morari, is a former member of the Gagauzian legislature in 2008-2015. The Auditors Court had reported Aidin SA for violations of the rules for utilziation of subsidies in the past. In 2014 Aidin SA was the largest recipient of subsidies in Moldova with 14.8 million lei.

The Auditors Court also found that during the application for subsidies in 2013, Aidin SA submitted two invoices as documents confirming the procurement of hardware and equipment for primary processing of cereals, but both invoices had been cancelled by that time by the supplier, VAB Com SRL. Those documents were used to attract a large amount of subsidies which were lated cancelled and requested back. The auditors also established that AIPA on its side "failed to verify the invoices from Aidin for subsidies amounting to 738,000 lei." AIPA launched an internal investigation on December 30, 2017, on this topic and learned that Aidin sold the hardware on January 2, 2017, to a firm called Aur Alb SRL. Aidin's prompt reaction demonstrates that someone in AIPA leaked the information about the investigation.

Speaking to Mold-Street, Aidin's owner and manager Grigorii Morari denied any knowledge of the Auditors Court's findings or formal obligations deriving from them. "A month ago the Court requested our papers regarding the subsidies [received], so I sent the documents. It was the third time our company has been inspected," the businessman stated.

Juice producer and pig breeder

Alfa Nistru SA from Soroca is on the third place. This is one of the largest juice and canned food producers in Moldova. The enterprise benefited from 16 million lei in subsidies in 2014-2016. Alfa-Nistru SA is under the control (61%) of the family of its manager Ilarion Ceban. Another major shareholder is Oxana Petrovici (18.4%), the commercial director.

Porco Bello SRL received 13.2 million lei for business development and hardware acquisitions. This company has grown on the ruins of a former Soviet pig farm in Cimişeni, Criuleni District, and today is a modern enterprise complying with all European standards. Its main shareholder and manager is Luis Juvenel from Paraguay. In 2014 Porco Bello SRL was reported among subsidy applicants which were suspected of attempting to breach the tax laws.

And the famed Caravita was ruled out too

The famed company Caravita Co SRL received 12.8 million lei in agricultural subsidies in 2014-2016. This time it was ruled out from the governmental subsidy program. Caravita Co SRL was founded in September 2011 in the village of Zolotievca, Anenii Noi District. Its founder was Sanda Filat, ex-spouse of former prime minister Vlad Filat. Three years later, after the two divorced, the ownership was passed onto Vladimir Rusu, a nephew of the former premier. Caravita Co SRL was caught in the midst of a scandal in 2014 when the company received more than 4 million lei in subsidies for agricultural investments.

Within a few years the company grabbed thousands of hectares of agricultural land in property in the districts of Anenii Noi, Căușeni, and Ştefan Vodă. It also purchased agricultural equipment worth dozens of millions of lei. A joint investigation completed by the National Anticoruption Center and the Prosecutor-General's Office found that Caravita Co SRL had received hundreds of millions in unmerited loans from the now defunct Savings Bank.

Relatives of Mr. Filat, now imprisoned on corruption charges – Vladimir Rusu and his father Ion Rusu – have been sentenced to prison for money laundering and complicity in the billion-dollar fraud in the Moldovan bank system. Other two employees at Caravita Co SRL, administrator Igor Cijov and financial director Tatiana Roșioru, have been held in the same case, which was a part of the nationwide investigations related to the involvement of the Savings Bank in the fraud.

Recidivist companies

Another subscriber to governmental subsidies was Doksankom from Ceadir Lunga, which received 12.5 million lei in three years. Until 2016 this company was run and owned by the head of Gagauzia's regional department for agriculture, Alexandr Chendighelean. It is now managed and controlled by Maria Acbaş.

Two more companies - Garma-Grup and Smart Team SRL - recent subsidies of 9.92 million and 9.47 million lei, respectively. Garma-Grup SRL is owned by the Ungureanu family from the city of Hânceşti. This firm was suspected in 2014 of submission of false information in order to qualify for 11 million lei in subsidies from AIPA. The same applies for Smart Team SRL, which was suspected of tax manipulations the same year, when it requested 10 million lei from AIPA

Only 1-2% of agricultural producers receive subsidies

Specialists support AIPA for its decision to close the doors to subsidies to the above-named companies. "You cannot fund permanently the companies that have much bigger possibilities for development and have been connected to the subsidy coffers in the detriment of the majority," says economist Viorel Chivriga. "In 2016, there were 4,321 subsidy beneficiaries – this is more than in 2015 but less than in 2014 (5,133) and 2012 (4,457). In spite of this statistics, the number of agricultural businesses that received subsidies is very low compared to the number of overall agricultural firms," the expert said.

There are currently more than 400,000 enterprises in the Moldovan agricultural sector; they work 2.04 million hectares of agri-fields. This shows that just 1-2% of these enterprises receive subsidies from the government. Mr. Chivriga welcomes the new amendments to the subsidy legislation. "It's a new law that brings a relative stability in [public] policy. Let's wait and see what happens. I thing AIPA deserves some good words. More open, more innovative, and closer to the farmers," Viorel Chivriga told Mold-Street.

Aside from the eight large beneficiaries, AIPA blacklisted another 15 agricultural enterprises from the subsidy program, citing legal breaches. The new regulation also provides for a maximum support of 3 million lei for each recipient during one year, applicable for all measures altogether. Producer groups may receive maximum 4.5 million lei. ©

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Who Is to Blame for the End of US Support for Moldovan Army

The United States of America has terminated the financial support for Moldova's National Army through its Foreign Military Financing (FMF) program, Moldovan former defense minister Anatol Șalaru announced in a Facebook post. According to the politician, it's President Igor Dodon to blame for this decision and deputy minister Gheorghe Galbura – „a man of Mihai Ghimpu."

12.7 million US dollars for the reformation of the Army

"The actions of Igor Dodon against the national defense system have started working. The U.S. has ceased to finance the National Army via its FMF account. The National Army of Moldova will miss this way 12.7 million dollars; this money was for the reformation and modernization of the armed forces. The reason for which the American partners have suspended the funding is the refusal of the Moldovan authorities to let National Army soldiers to take part in the regional military exercises," the former defense minister claimed.

Mr. Şalaru says the U.S. used to send 12.7 million dollars every year to the Moldovan military, under various forms, and that assistance "was a breath of oxygen for the National Army, whose budget is very limited." "Let me announce this way that I shall file a complaint of criminal nature against Igor Dodon for actions that undermine the national defense system of Moldova," Mr. Şalaru wrote in his timeline.

Half the budget of the Army

Indeed, compared with a budget of little more than 25 million dollars a year, the support amounting to 12.7 million dollars is a consistent contribution for the Moldovan armed forces. What the former defense minister avoided to admit is that the sum of 12.7 million was for one U.S. fiscal year only (2016/2017). Earlier, this support varied between half a million in 2009 and 1.25 million in 2012-2015.

Moldova is not alone – Ukraine and Georgia cut off American defense support too

The U.S. Department of State reports show that Moldova is not the only country to lose American military support. In 2017, as part of the same program, Ukraine received 85 million dollars and Georgia was granted 30 million dollars. In 2018 these three nations would not benefit any way from the FMF mechanism. There is no evidence from official U.S. documents supporting a direct connection between President Dodon's statements or actions and the decision to suspend the assistance for Moldova.

Anatol Şalaru has another explanation for this finding. He maintains that Georgia receives U.S. financial support for military purposes via other channels and projects. Neither President Dodon nor the Defense Ministry have made comments related to the announcement of the former minister.

A decision of the U.S. Administration

Brett Schaefer, a foreign policy expert at the Heritage Foundation, was earlier quoted by the Defense News portal as saying on the curtailment in this program that the goal is to expand the defense budget without cutting the budget overall. The Trump administration is considering offering FMF under a loan program. Under that regime, instead of the U.S. giving the funds to a partner nation with the obligation that they spend those funds on U.S. defense goods, the partner would have to return that money to Washington in the future, according to Defense News.

"The problem with the loan system, warn critics, is that nations would essentially be double-spending those funds. An FMF loan of $10 million would actually cost the country that accepts it $20 million, first for spending the money on U.S. materiel and then paying it back." In 2016 Moldova allocated 556.3 million lei (29.2 million dollars) for defense needs and in 2017 the country would spend 564.3 million lei for its armed forces.

Smallest military budget in Europe

A study released by the Stockholm International Peace Research Institute (SIPRI) says that in spite of increasing its defense budget Moldova's military spending is among the lowest in the world and the lowest in Europe. By comparison in 2016 the ex-Soviet country spent twice as less as Malta, which is 7u0-fold smaller, and 11-fold less than Georgia, which has approximately the same size of territory and population number, and is facing similar Russia-backed separatist problems. Moldova spends between 0.3% and 0.5% of its GDP for defense activities during more than one decade. SIPRI's study also shows that Moldova has made the least weapons purchases in 2016 – they cost just 0.4% of GDP. For example, Romania put aside for this purpose 2%, Estonia 2.1%, Ukraine 3.8%, Armenia and Azerbaijan 4.6%, and Russia 5.3%. ©

Statistics Beats Mr. Dodon: Who We Moldova's Main „Sponsors" in 2016

President Igor Dodon has said at a ceremony in Comrat that „Russia and Turkey are the closest friends of Gagauzia and Moldova as well." Official statistical data on foreign assistance for the country in 2016, 2015, and 2014 however contradict the chief of state. The report that covers the international assistance which Moldova benefited in 2016 shows that the country received that year more than 440 million euros, which is around 33% more than in 2015.

The importance of an agreement with the IMF

Out of this amount, 227 million euros was granted to the governmental sector – 32.8% more than 2015 – and the sum is compared to what was granted in 2014, says the report, which was drafted by the State Chancellery. The increase in international assistance in 2016, as the draftee institution explains, is a result of "Government's efforts" and the signature of the support agreement with the International Monetary Fund in November 2016. That agreement let the country "regain the confidence and credibility in the eyes of Moldova's development partners."

The share of international assistance in the Moldovan GDP has been around 6% during the past years while in the national public budget it decreased from 16% down to 9%. The financial sustainability of Moldova yet "continues to rely on international assistance," the report goes on.

Who are the main "sponsors"

The State Chancellery admits that remittances are 2-3-fold larger than international assistance and that foreign direct investments in 2012-16 were 2-4-fold less compared with the same assistance and 10-fold less than remittances. In 2016, it says, the largest development partners for Moldova were – in descending order – the European Union, the World Bank, Romania, the European Bank for Reconstruction and Development, and UN agencies. With the closing date of December 31, 2016, the report shows that around 76% of the international assistance provided until that day came from the above-mentioned five partners. The remaining 24% came from other 11 donors, including the IMF, the United States, Switzerland, Sweden, Germany, Austria, the Czech Republic, and Japan. Not even a sign of Russia or Turkey.

Nor did Russia grant a penny to Moldova in 2014 or 2015. As for Turkey, it allocated almost 2 million euros in 2014-2015. The biggest project which the Turkish government funded in Moldova, via its development agency TICA, was for completion of construction and maintenance of a building that will host a foundation for culture and Islamic traditions. It cost Ankara half a million euros.

Where assistance goes

The largest part of international assistance was used for the implementation of projects in Agriculture; Transportation and Road Construction; Healthcare; Energy; Water and Sewerage; Climate Change. Agricultural projects attracted 29.6 million euros in 2016 and contributed to the modernization, better competitiveness and market integration of the Moldovan food chains in compliance with EU safety and quality requirements.

The transportation and road construction sector benefited from 28.1 million euro worth of assistance. The Chisinau government made road rehabilitation a priority of its agenda and given the austere budget the international assistance made a great difference. Moldova is unable to attract any major investments without modern roads and the logistic costs remain pretty high.

Healthcare is another sector that attracted international assistance last year – 28 million euros, or plus 20% compared to the previous year. According to the Health Ministry, 66% of assistance was provided for the program on prevention of non-transmissible diseases and 22% for improvement of the medical care for patients with transmissible diseases.

Donors gave around 22.5 million euros for energy security and efficiency program, and 13.1 million euros for the water and sewerage program, and climate changes.

Loans make up 78% of assistance

Looking at the form of financing instruments, the State Chancellery mentions that loans and credits made up 78% of the 2016 international assistance and that the government continued to look for grants and other forms of non-reimbursable support. Among the public authorities, some of the biggest recipients were the Academy of Sciences, the Health Ministry, the Economy Ministry, and the Finance Ministry. The largest budget-maker is the Ministry of Transportation and Road Infrastructure – it absorbed 548 million euros, or 52% of ongoing assistance. The Economy Ministry is second in line with a share of 25%, or around 260 million euros, and the Environment Ministry with a share of 5.4% (57 million euros).

Small progress in spite of plenty of assistance

The State Chancellery says there's been maximum transparency around the administration of international assistance. Nonetheless, a number of studies and audits published by the Auditors Court of Moldova reveal numerous shortcomings. A published report from the European Court of Auditors (ECA) in 2016 says the EU assistance for the consolidation of the Moldovan public administration had produced a limited impact. Among the most frequent motives to explain the shortcomings it cited the lack of political will on behalf of the national authorities of the recipient country and existing conceptual drawbacks or faulty implementation plans.

"The EU faces significant challenges in implementing assistance for Moldova," said Hans Gustaf Wessberg, a member of the European Court of Auditors responsible for the report. "The combination of political and macroeconomic instability, weak governance and public administration significantly reduces the European Commission's leverage to encourage reform," he added. The ECA has drafted a set of recommendations for the European Commission in order to improve the assistance process for the ex-Soviet country.

In July 2017 the Chisinau government announced plans to audit all projects that were being implemented from international assistance. Prime Minister Pavel Filip was quoted as saying that his office needed a comprehensive "analysis of the system and of the capacities, in order to improve the strategic planning and upgrade the responsibilities of the implementing parties." ©

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How to Get Permits for Construction of a Gas Station in the Capital

A court of law has ordered the Chişinău City Hall to issue a certificate of urbanism for the design of a gas station in the capital; it would be erected on a tiny field where a car repairs shop exists. The judiciary suit throws light on the fact that the field has been in the midst of a number of dubious transactions that were used as part of a scheme to strip the municipality out of dozens of fields and to pass them into private hands. A firm called Auto Oil SRL, founded by Valentina Palii in October 2016, started the litigation early in 2017.
Court obliges City Hall to let construction of gas station

In its request to the Chisinau Court in the Central District, Auto Oil SRL said it had asked the City Hall to issue a certificate of urbanism – one of the many papers which a registered entity needs for the design and construction of a gas station. The firm neglected the fact that there are some 220 gas stations in the capital, 100 over the limit which the authorities had set earlier, and that the Municipal Council imposed in February 2016 a moratorium on this kind of buildings (and businesses). This moratorium was later annulled by another court of law. Given the circumstances above, Auto Oil SRL was denied the certificate.

The court in its ruling from March 13, 2017, mentioned that the Municipal Department for Architecture, Urbanism and Land Affairs described the field that measured 0.076 hectares in the Grenoble Street as "part of the public domain of the capital as inalienable and imprescriptible [land], and it cannot be estranged." The department explained to the applicant firm that the field has been part of litigation and no paper whatsoever can be issued unless the case is closed.

The court however found little rationale to turn down the request for an urbanism certificate, by stating that the field was already property of Auto Oil SRL and that no litigation may be a ground for refusal for such documents. It also pointed to the fact that "in compliance with Article 3 of the Law on Authorization of Construction, this circumstance [litigation] is not an impediment for the issuance of official permits." As a consequence, the Chisinau Court in the Central District obliged the Chisinau City Hall to issue immediately a certificate of urbanism for the design and construction of a gas station in the disputed field.

How Auto Oil obtained the field

The ruling came in spite of the fact that the field has been in the middle of several dubious transactions. Official cadastral records show that the field was rented by the Moldovan Motorists Union in May 2015, for a five-year time. Days after, a bailiff (Nicolae Nicolaescu) imposed sequester on the field and another bailiff (Alexandru Tcacenco) did the same some time later.

On September 14, 2016, it emerged that a couple – Oleg and Tatiana Marov from the town of Causeni – is the new owner of the field. A week later they sold the field to Fuerte Group, an offshore registered in Edinburgh, Scotland. Seventeen days after a new transaction takes place and the field became property of another couple – Sergiu and Olga Corghenci – who sold it to Auto Oil SRL on November 14, 2016.

Readers should bear in mind that the capital's administration disclosed at the end of 2016 the implication of Judge Angela Catană in a scheme envisaging the illegal expropriation of 20 fields from the public property of the municipality. "The court [presided by this judge] ordered the registration of ownership regarding the 20 fields within the city of Chisinau and which belonged to the municipality on the names of three firms, based merely on the minutes of a land auction which in reality never took place," the City Hall said in a statement released to the media. None of the local public authorities had been cited in the suit or asked to defend its rights.

UK offshore

An investigation carried out by Ziarul de Gardă demonstrates that Fuerte Group had been involved in the transactions with the field where Auto Oil SRL wants to build a gas station. Fuerte Group also captured 11 fields in the capital between late 2016 and early 2017. Fuerte Group, a limited partnership, is owned by two other offshores: Derion Invest SA and Helex Invest SA from the Seychelles or other tax paradises.

British records show that a 47-year-old man called Mihail Covali, from the village of Nimoreni in Ialoveni District, was in control with Fuerte Group as of August 26, 2017. Scotland-registered limited partnerships had been involved in the financial fraud that shook and drained Moldova out of one billion US dollars as well as other major schemes. UK laws let beneficiaries of local offshores keep their identities in secret. ©

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Who's Done Lobby for Moldovan Politicians in the United States

The Moldovan Democratic Party (PDM) has been the most active in getting its image promoted in the United States in the past two years. It has spent more than one million dollars for contracts already fulfilled and to be fulfilled. This sum is times larger than all other Moldovan individuals and legal entities have spent on similar activities in the past 25 years. Mold-Street has analyzed the contracts which the Moldovan authorities, politicians and business people signed for promotion of their interests and image in the United States.

Who was Moldova's first lobbyist in the US?

The first contract with a Moldovan that appears in the database of the US Department of Justice in compliance with the Foreign Agents Registration Act (FARA) dates back to March 1993, when then president Mircea Snegur sought assistance from the consultancy Hall, Dickler, Lawler, Kent & Friedman.

The document says that consultancy was hired to „advise President Snegur in legal and economic matters associated with the creation and functioning of a market economy in Moldova, as well as other relevant issues." The firm wasn't hired and would not participate in supplying usual lobby services and President Snegur would occasionally ask Hall, Dickler, Lawler, Kent & Friedman to talk to US Government officials about providing services and/or funds to the Republic of Moldova, it says further.

A partner at the firm, Mark A. Meyer, was in charge with this commitment. In a message from February 18, 1993, Mr. Snegur acknowledged Mr. Meyer that consultancy Hall, Dickler, Lawler, Kent & Friedman had an advisory status and himself was appointed as "a special, unpaid, advisor of the Moldovan President." „In this position we would like to receive from you information and consulting in economic and legal matters regarding the creation and functioning of a market economy," the presidential message reads. It did not however disclose the costs or the duration of this contract.

Honorary consul of Moldova, President Voronin and Transnistria issue

Mind that Mark Meyer continues to help Moldova in promoting its image and attracting American investments. In 1993 he established – and runs – the American-Moldovan Chamber of Trade in New York. He is also the Honorary Consul of Moldova in the state of New York. Mark A. Meyer is a supporter of Moldova and frequently stood up to defend its independence, demanding the pullout of Russian troops from Transnistria. He is one of the authors of the study "Thawing a Frozen Conflict: Legal Aspects of the Separatist Crisis in Moldova", which was released in 2006 by the Association of the Bar of the City of New York, an organization he manages.

The head of Moldovan think tank IDIS Viitorul, Igor Munteanu, was the ambassador to the US. He says that although both the Association and Mr. Meyer have done an extraordinary job, the impact from their work is low. „The study was prepared for internal use. Based on this document, the authorities in Chişinău had to work out a plan of legal, political, and diplomatic actions at international level, all designed to oblige Russia to withdraw its army group from Moldova and pay compensations to our country. President [Vladimir] Voronin however made this document a public issue and all those efforts had led nowhere as a consequence," the former diplomat stated.

Mr. Munteanu believes that by doing so Voronin heavily damaged the national interests of his country. The IDIS Viitorul director also specified that the American lawyer and his partners had not received any cash for the study but they were hoping to get rewards later on time should Moldova file suits against Russia. Nonetheless, Voronin recognized the merits of Mark Meyer and awarded the Civic Merit medal to him in September 2006.

Government seeking to talk to heads of Fortune 500 entries

At the end of 1993, the Moldovan Government was seeking the services of another company, Casystems International, via the American-Moldovan Chamber of Commerce of New York. The contract inked by Deputy Premier Nicolae Andronati and Frank G. Hilton said that the consultancy would represent the ex-Soviet republic in the US and would advertise its business opportunities among American companies in order to attract US investments into Moldova's economy.

Casystems International was also committed to represent Moldova at loan and grant negotiations with the US Government, the International Monetary Fund and the World Bank. There was no time limit set in that agreement, no fees were involved or exchanges between the client and the supplier, and Casystems assumed all associated expenses.

The company was expected to work with the American-Moldovan Chamber of Commerce of New York and with Deputy Premier Nicolae Andronati in crafting a privatization program for the new independent country. It also needed to coordinate the meetings of Mr. Andronati with Congress members and CEOs of Fortune 500 ranking companies that aimed at advertising Moldova's business opportunities and at assisting the Government in relations with private companies.

Casystems expected to collect 10% of the profits from all joint projects implemented with its support.

How the Mezon deal failed

Five years will pass until someone from Moldova will seek lobby services in the United States. This time a Moldovan-American joint venture will approach consultancy McCaffrey Braley Inc. The contract with Shellyn McCaffrey provided for services in favor of Mol-Med Ventures Inc. in Tequesta, Florida. The latter had an agreement with Mezon in Moldova on import of US commercial equipment and hardware into the former Soviet republic, eventually for a Moldovan-American partnership.

Mol-Med Ventures Inc. was expected to identify the funding sources for the export of American equipment and hardware and for trade and business abroad, in the interests of the Moldovan state. The contract reads among others [translation], "…since this project is of major economic and commercial concern for the Government of Moldova, the Moldovan President has considered to get involved personally in this project and promote it (and maybe others)."

In August 2000, Mol-Med Ventures Inc. participated in a tender for privatization of Mezon SA, a former military electronics plant, and won the contract. The company was obliged to pay a tiny price of 150,000 dollars for a former Soviet industry giant where some 7,000 people worked until 1990. And more - Mol-Med Ventures Inc. was committed to pay more than 7 million lei in debts to the Moldovan state plus some 20 million German marks of its subsidiary Perfuzon. The investor was also obliged to invest 70 million dollars in the plant in the future. The deal failed soon and already in October 2000 Mezon SA filed under the bankrupt clause; at that time its overall debts amounted to 150 million lei.

Americans, Moldovans, and the Kurchatov Institute

In October 1999, the Moldovan authorities asked John J. Gallagher to help upgrade the relations of the Government in Chisinau with the US Administration and Congress members. The agreement required the lobbyist to attract American investments into the Moldovan economy and in joint science and technology projects with Moldovans, Russians and Americans with the Kurchatov Institute in Russia. Documents show that the agreement was supported by then president Petru Lucinschi.

Moldovan millionaires seize the stage

And then another ten years passed before someone from Moldova decided to seek lobby services from US consultancies. Moldovan millionaire Anatol Stati contacted Covington & Burling via its firm Tristan Oil in 2009 over the pressure from the Kazakhstan authorities, which was trying to push him out of the Central Asian country. The sides signed a 100,000-dollar contract but the public never learned what it was about or how the consultancy helped the Moldovan entrepreneur.

Plahotniuc and the Jackson-Vanik Amendment

Three years later, in August 2012, it was the turn of then-First Deputy Chairman of Parliament, Vlad Plahotniuc, to get in touch with the US lobby business. The agreement, which was signed with Mark Robertson, head of Potomac Global Advisors, LLC, provided for logistic support for Mr. Plahotniuc at the International Leaders Forum, an event held by the National Democratic Institute in collaboration with the National Democratic Convention in Charlotte, in September 2012.

Potomac Global Advisors, LLC, was also bound to organize bilateral meetings with White House members, Congress Representatives, Department of State and Department of Commerce officials. One of the topics which Plahotniuc, leader of the Moldovan Democratic Party, wanted to address there was lifting the US trade barriers for Moldova by cancelling the Jackson-Vanik Amendment.

The Jackson-Vanik Amendment was passed in 1974, during the Cold War. The bill limited the export of US products and hardware to the Soviet Union and later, after its collapse, to ex-Soviet republics. Georgia was removed from this list in 2000, Armenia in 2004, and Ukraine in 2005. Moldova was able to escape the Jackson-Vanik legislation only in December 2014, along with Russia.

As Igor Munteanu – Moldova's ambassador in Washington DC at that time – recalls, many decision-makers in the US considered to regard Moldova as country dominated by anti-semitism and the trade barriers survived. „A great deal of efforts was necessary in order persuade the US Senators and the House of Representatives to repeal this amendment in relation with Moldova. Other countries were using services of consultancies and lobbyists to promote their interests while Moldova lacked the necessary cash and acted through personal meetings with representatives of Congress members," Mr. Munteanu explained.

Lobby for PLDM and Vlad Filat

In April 2014, the Moldovan Liberal Democratic Party (PLDM) sought lobby services from Fianna Strategies LLC. Although PLDM and its leader Vlad Filat were the de facto beneficiaries, the services were contracted by Kapital Invest Company SA from Iaşi, Romania. Mr. Filat, who in 2016 was sentenced to 9 years in prison, was the majority shareholder of Kapital Invest Company SA.

For 15,000 de dolari, Fianna Strategies esd expected to prepare a visit of Vlad Filat to Washington DC, to arrange meetings with Congress members and US Administration officials, with think tanks and mass media. Five months later, in September 2014 PLDM again contracted Fianna Strategies LLC. This time the 20,000 contract was signed between Vlad Filat himself and the consultancy's CEO Molly McKew.

Fianna offered consultancy services to PLDM as well as support in building partnerships and ties with relevant US officials including representatives of the Administration, Congress, media, and other organizations. It was also due to assist the Moldovan party in organizing official visits of PLDM leaders to the United States and in communicating the party's stance, and in providing details about Moldova's internal situation in the context of the November 2014 parliamentary elections. One year later, in August 2015, a new agreement gets signed with similar provisions and with a deadline at July 31, 2016. There were no details about the cost of services.

What was Podesta's job for PDM

Nonetheless, the most expensive lobby deals ever a Moldovan signed up for are those between the Democratic Party (PDM), the ruling party in the former Soviet republic, and Podesta Group, another known consultancy in the US. On June 21, 2016, Podesta Group was awarded a lobby contract worth around 600,000 dollars from the Moldovan Democratic Party, PDM, which asked for PR activities and assistance in building lucrative relationships with influential Americans.

Mold-Street has screened the activities which Podesta Group was committed to carry out in 2016 for Moldovan Democrats. A company report shows that in 2016 Podesta organized and planned more than 250 activities and the first one started on July 27, 2016, with a phone call to Victoria Nuland, assistant for European and Eurasian Affairs to the US Secretary of State. Later on Podesta will call again Mrs. Nuland and will sent two emails to her inbox.

Otherwise the bulk of activities were in the form of electronic messages to various recipients, mainly to media organizations, public institutions, and think tanks. On August 3-4, for example, Podesta sent emails to a group of journalists at Forbes, including Michael Noer, executive editor at the magazine's special projects department. Other targeted media were the New York Times, Reuters, Bloomberg, Wall Street Journal, CNN, USA Today, Washington Post, Washington Times, The Hill, Associated Press, Fox, Politico, etc.

The Podesta report also refers to 18 meetings. The first was held on August 8, with Desmond Butler, reporter at the Associated Press International Investigative Team, one of the authors of an investigation about the trafficking in radioactive substances via Moldova. It was Atlantic Council that attracted most of meetings – three – and the highest ranking attendee was Bridget Brink, deputy assistant to the Secretary of State, of the European and Eurasian Affairs. This meeting took place on September 29, 2016.

How much Podesta received and what PDM reported

Podesta published a financial report that covers its activities for the Moldovan party. The report says that

PDM wired 484,000 dollars (10 million lei at the exchange rate of that date) onto Podesta's accounts between July 1 and November 25, 2016. The company notes that 47,100 dollars represented reimbursements and that the expenses related to reimbursements were associated with Podesta's activities while none of US officials or media representatives benefited from this sum.

Plahotniuc's article delivered to more than 200 US officials

Back in Moldova, PDM in its financial report to the Central Election Commission never put those expenses distinct from other expenses, and never mentioned their purpose. One may learn from that report that in 2016 PDM spent more than 40.5 million lei for "press and promotion", that was 87.5% of its publicly announced budget. The 10 million lei for Podesta Group accounted for 25% of PDM's budget for promotion.

In 2017 the PDM-Podesta collaboration continued. After the publication of an article titled "Moldova Steers a Path to Democracy and Reform" in the Daily Caller from PDM chairman Vlad Plahotniuc, on April 12, 2017, Podesta reported that it sent the link to the article and an executive summary to more than 200 emails of advisors and assistants to Senators and Representatives, as well as White House members.

New contracts of millions

In late July 2017, PDM contracted two major lobby consultancies in the US: Cornerstone Government Affairs and Podesta Group. They were asked to organize high level meetings in the US and to advertise the policies of Moldovan Democrats, who would pay 480,000 dollars for services. Podesta, for instance, was hired for assistance in communicating the priorities in the US-Moldovan relationships to the relevant audiences in America, including Congress and politicians.

The two companies have been in the top ten consultancies that earned the most expensive lobby and PR contracts in the US in the past years. Cornerstone Government Affairs earned in 2017 contracts worth 9.26 million dollars, though it is well beyond 16.8 million dollars earned a year earlier; the company ranked the eighth among lobby-makers in the US. Podesta Group was the third ranking in 2016 with 24.04 million dollars, and this year it earned 11.02 million. The company had been involved in several scandals related to promotion of interests of corrupt political leaders.

US legislation obliges lobbyists working for a foreign agent (government, party, etc.) to renew registration once in six months at the Federal Department of Justice, in compliance with FARA procedures. A registered firm must expose the nature of services and the earnings from foreign agents. Nonetheless Mold-Street found that a large part of documents on Moldovan contracts published by lobby entities missed the earnings – although descriptions of completed services exist.

Why the Government can't get lobby services

The head of IDIS Viitorul, a Moldovan think-tank, Igor Munteanu says that Moldova badly needs lobby in the US, otherwise it is tough to attract American investments or expect such giants as General Electric or General Motors to step up towards the ex-Soviet state. However, it's not so easy as it seems to buy lobby services, according to Mr. Munteanu, formerly a Moldovan ambassador to the US. „In order to let Moldova benefit from lobby services, its government needs to hold a public auction. Very few people visit an auction in such cases. In this regard politicians have more room for maneuver in order to get those services," the former diplomat explained.

For years, Moldova benefited from unconditional support from several American states and has built good partnership bridges, he continued. Take for example Elaine F. Marshall, state secretary in North Carolina. She had lobbied with letters delivered to the White House requesting to lift the trade barriers in case of Moldova, with which North Carolina had partnerships. „This wasn't a lobby in the broad meaning, but rather a symbolic support which yet was quite helpful," added Igor Munteanu.

In December 2011, Elaine F. Marshall was awarded the Honorary Order of Moldova for her effort in building partnerships between North Carolina and Moldova. Sources say there are many more Moldovan politicians who received lobby and PR services from US consultancies, but no documentary evidence has been obtain to support those claims. ©

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How Much Did Moldova Spend for Regional Development? Too Little and Imbalanced

In the midst of summer the Government approved at last an action plan for implementation of the National Strategy for Regional Development for 2016-2020, which would cost more than 7 billion lei in public investments to make it true.

Overall, this amount is several times larger than previously allocated. The authorities argue that the document was developed on the basis of three specific objectives: Access to quality public services and utilities, Sustainable economic growth in the regions, and Improved governance in the area of regional development. In order to achieve these, the Government aims to ensure balanced and sustainable development in all the regions of the Republic of Moldova, i.e. the six established regions for the time being from a conventional point of view. The announced targets are quite ambitious and look good on paper, while the regional situation is getting worse.

Disparities in regional development or why the country is losing population

The authorities agree that Moldova's regions are far behind and must evolve economically and financially. Previously, the Government had tried hard to support the trends of regional development as provided by the E.U. Acquis Communitaire. But official data reveals that budget allocations decrease from year to year (2015 - 1% of public revenues, in 2016 - 0.8%, and in 2017 - 0.6% of revenues), despite international partners' support and insistence, and also in spite of European practice in the field. Or, if we were to correlate the facts sarcastically, the decrease of population in regions could be implicitly linked to the fall of incomes. The assumed the commitments are ultimately violated and official statistics confirm this observation.

As a rule, we should note that the current disparities in regional development can be attributed to the erratic economic management during the USSR era, and blame them for different speed of industrialization and also of incomplete urbanization of the country.

Excessive concentration of economy in Chișinău

Moreover, the given processes have even accelerated during the transition period. Thus, according to recent reports from the National Statistical Bureau (BNS), one of the biggest discrepancies from the regional aspect is an excessive concentration of businesses in the Chisinau municipality, followed with a large leap by the city of Balti. The emphasis of these two cities is largely focused from the structural point of view on dissimilar production factors that exist in these regions and in the rest of the country.

A large part of studies and analyses on regional development, as well as official statistical data, indicate that Chisinau has a huge advantage compared with other parts and has attracted mainly industries and services, while the rest of regions heavily rely on agriculture. Without doubt, adjusting the regional development policies requires identifying the factors of economic growth, particularly from a statistical point of view. Respectively, the regional disparities according to territorial profile, aligned according to specialties.

On the whole, readers may notice that the indicators in the agricultural and industrial sectors are above the service sector's account, and this highlights the fact that the latter is concentrated in the Chisinau municipality and has a very small presence in other regions. Respectively, we can say that in general for Moldova there are two major aspects of regional economic development. Thus, for the whole country (except for Chisinau) the economy would be specifically agricultural while in the capital and, in part, in Balti, it would be more focused on services and manufacturing / processing industry. However, the lack of up-to-date statistical data until recently and relevant analyses has affected the good implementation of regional development policies; the efforts have been reduced to a conjunctional process rather than in-depth approach for key development factors and issues.

In addition to uneven distribution of economic sectors in the regions, regional economic discrepancies are also confirmed at GDP level under the territorial viewpoint, according to BNS' calculations in absolute and relative terms. Accordingly, 57% of GDP is concentrated in the Chisinau municipality, and 17% in the Balti municipality, which is part of the Northern Development Region, and maximum 3% in the Gagauzian autonomy in the south.

In fact, a geographical concentration of economy demonstrates that the share of a region in a territorial profile corresponds to its importance as a whole in the national economy. Broadly speaking, as shown in the figure above, there is an extremely large difference in the regional distribution of total production in the Republic of Moldova. On the other hand, these data do not show a complete map of territorial development, as it shows the situation more from a static point of view. However, despite a major economic and social discrepancy between regions, the statistics on earnings or wages for the past few years show a tendency of the regions to move closer to the capital. At the same time, economically, wage convergence does not present the real situation in the economy, and the labor productivity and wages would matter much more.

Moldova falls behind in regional development

To develop efficiently, a sector must benefit from adequate financial support. Accordingly, a regional development financing system was developed as part of implementation of the National Regional Development Strategy 2010-2012. In fact, this system, or mechanism, has demonstrated a relative viability, flexibility and sustainability. This sort of financing is exclusively focused on the National Regional Development Fund (NRDF), whose resources are limited compared to the needs.

For example, in compliance with the 2017 State Budget Law, the NRDF was allocated about 186 million lei, which represents almost 0.6% of its revenues or about 0.2% of GDP. It is, in fact, a small sum of what is to be achieved under the new draft strategy for 2016-2020. There a major financial gap, as a share of GDP, which is allocated for regional development in Moldova compared to other states, including E.U. members.

International partners are more generous than Government

International partners, in particular those involved in various projects – some of which cover regional development, use to fund regional projects that very often are larger than the Moldovan government can afford. Since regional development is a primary component and aspect of E.U.-promoted territorial policy, the NRDF should be increased to 3% of GDP or up to around 5%, as is the case of some E.U. countries. An idea that is very popular nowadays, but with little chance for widely, due to several reasons. Also, assessments of the previous two strategies revealed that there aren't too any effective mechanisms for associating and co-financing from other sources - both national and international (except for GIZ and DFID).

It was learned that local public authorities engaged in implementation of projects in their settlements fare badly in collecting statistical information or quantifying the impact of other public financing instruments (Road Fund, National Ecological Fund, Energy Efficiency Fund, transfers from the Ministry of Health and Ministry of Education etc.) onto regional development. However, regional development is not yet a policy that would oblige public agencies to cooperate.

In conclusion…

If, until recently, the regional economic disparities were identified in a subjective manner, they are currently relevant and based on objective information, including official statistical data. The enormous economic development differences separating the Chisinau region - where GDP represents almost 60% compared to the rest of the country - speak of a truly obsolete Moldova in terms of regional development. Strategies and promises would not help. Concrete actions are necessary but they are missing. ©

How Much Money Has Been Recovered and How Many Lawsuits Banks Filed Against Shor Group

Since Banca de Economii, Banca Sociala and Unibank lost their licenses on October 16, 2015, until June 30, 2017, the provisional administrators who handle their closure and bankruptcy procedures collected a total amount of 847.66 million lei in recovery cash, the National Bank of Moldova (BNM) has announced. The amount recovered represents only 6% of the amount of state guaranteed loans worth 14,121.76 million lei granted between November 2014 and October 2015 by the BNM to the three financial institutions.

BEM recovered only 3.6%

Banca de Economii (BEM), or Savings Bank, performed the worst; it had received from 9.27 billion lei from the central bank but was able to recover about 377.8 million lei by June 30, 2017 – this is only 3.6% of the total amount. The Social Bank received 2.7 billion lei and recovered about 341 million lei, or 12.6%, and Unibank out of about 2.15 billion lei recovered only 128.85 million lei, which is less than 6 % of the amount received.

In June, less than 17 million lei was recovered

In recent months, however, the pace of recovery has slowed down. In June 2017 the collections amounted to 16.6 million lei only. Nonetheless the recovery, as BNM explains, does not mean that the full debt is being paid back. Reimbursement collections make up the largest share of all debts (reimbursements plus pledge sale-offs) upon the emergency loans. The resources frozen on the accounts of the three banks at the date of license withdrawal were used to cover the expenses related to the closure process and to pay off promissory notes towards the Finance Ministry.

"From the date the licenses were withdrawn and until 30.06.2017 including, the government-appointed administrators of three bankrupt banks repaid to the National Bank (until 03.10.2016 including) and to the Ministry of Finance (as of 04.10.2016) a part of the debts related to the emergency loans granted to [these] banks up to at the appointment of the new administrators, who are obliged to deal first with the collection of first class notes," a central bank press release reads.

BNM reports show that since the date of license withdrawal until October 3, 2016, when according to the infamous Law no. 235, the guarantees issued by the Finance Ministry and the Leanca Government officially turned into a state debt, the three banks had reimbursed 780.56 million lei. As a result, the Finance Ministry issued and submitted to the National Bank state bonds worth 13.34 billion lei.

More than 13 billion still left

From October 3, 2016 until June 30, 2017, another 231.6 million lei was reimbursed. As a consequence, by the end of June the authorities succeeded to collect a bit more than one billion lei while 13.11 billion lei (about 725 million dollars) was yet to be recovered. The central bank said the government-appointed administrators continued their efforts to have the loans back in the public coffers.

"The administrators cooperate closely with investigators and with the courts, and the continued the auctions where the assets of the three banks were sold and continued their work with debtors; the final goal is the full repayment of the ordinary and emergency loans ," BNM stressed. The central bank also published a list of legal measures that were being handled by Moldovan courts against debtors of banks.

On paper, all money came back

Meanwhile in courts, the three banks filed 165 lawsuits for recovery of the loans which they had generously shared until the end of November 2014; the total claims account for 13.57 billion lei. In theory, BEM, Banca Sociala and Unibank have the necessary money and assets, and should the judges rule in their favor, the debts are as if recovered. The websites of the banks give readers a clue who the banks’ debtors are.

What banks sell: businesses, homes, barrels

BEM, for example, has published a list of 80 assets each of which is worth more than one million lei; altogether they would bring the bank over 450 million lei. Another 241 assets are estimated at less than one million lei apiece. The shares (10.2%) in Moldasig, a broke insurance company, are valued at 34.9 million lei and the bank's headquarters in Columna Street in the capital costs at least 33 million lei.

The list includes distilled brandy worth more than 30 million lei, a few firms, and an unfinished residential block with over 130 apartments in Dumeniuc Street of Chisinau – of which 29 cost more than one million lei each. The building work was carried out by a company of businessman Ivan Tomaili, a suspected crook, who in 2011 received about 60 million in loans from BEM for his real estate project. In May 2015 the businessman was held by the National Anticorruption Center over his failure to pay back more than 100 million lei in loans taken back in 2009-2011.

BEM is also trying to get rid of wine barrels, motor cars, ATMs, garages, hardware and equipment, computers, etc. Although for many of these items the price has dropped the bank has not been able to find buyers for years. Banca Sociala on its side seeks for a buyer for a railway portion in the city of Bălţi and a share of 99% in Ceproserving, a local joint-stock company, which was estimated at over 55 million lei. Bailiffs and governmental administrators are supporting the efforts of these banks to sell the goods.

388 executive orders for 4 billion lei - Only half a percent enforced

According to the central bank, as many as 388 executive orders were issued by June 30, 2017 in relation to recovery of 4.17 million lei, of which 206 orders have been enforced in full or in part and just 24.8 million lei has been recovered. This means that enforcement was successful in just less than one percent of cases. Another 37 orders for 31.9 million lei were issued to the defunct banks without any enforcing perspective. The judiciary agencies are managing now 71 lawsuits related to the 2014 financial fraud. BNM said it had told the three banks to publish every month summary reports on cash recovery and detailed descriptions about the assets for sale, on their websites. One can find some of this information – the largest part of assets is still being hunted by the American company Kroll.

Banca Sociala owes 12 billion lei in executive orders

The National Bank of Moldova also mentions in its release that the Banca Sociala had received four final court decisions that obliged the bank to claim more than 12 billion lei from four companies that were part of the group run by millionaire businessman Ilan Shor – a major suspect in the fraud. None of those decisions is available to the public and the reasons are now known so far. One of Shor's companies, Caritas Group SRL, has been cited as a defendant in the suits but no information about it appears on the courts' websites.
Legal actions are also underway against Voximar-Com SRL, for around 3 billion lei, but the company has filed for an appeal. ©

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Magic of Numbers or How Authorities and Politicians Manipulate

The public is daily bombarded with plenty of numbers and financial reports – from press releases issued by various authorities to analytical features from experts. Many of these data are erroneous while journalists and even entire editorial staffs let get fooled without a single piece of remorse. This piece of text is an attempt to analyze some of these data and to show that it's very easy to ruin false numbers and to expose what is not true.

Magic numbers and reality

The Greek philosopher and mathematician Pythagoras and his followers believed that numbers expressed both quantitative and qualitative relationships. Moreover, he attributed magic properties to the numbers. While this belief is true or not, we don't care, but it looks like for many of us the numbers play a magic effect and more often they produce a negative impact. The public authorities and ruling political parties are most likely to boast with figures, getting used to prove a good performance. These frequently use numbers without any business in order to exhibit their success. The opposition, on the contrary, uses numbers to demonstrate the government's disability to keep the country on good pace.

Foreign Affairs Ministry and a road piled with holes

Let's take for example one of the latest press releases issued by the Moldovan Ministry of Foreign Affairs and European Integration. It reviews 10 counts of successful implementation of the Association Agreement with the European Union. It states that thanks to the support of the European Bank for Reconstruction and Development and of the European Investment Bank, Moldova has managed to rehabilitate 425 kilometers of national motor ways.

The reality is that these motor ways indeed were in the do-list for rehabilitation but the bank fraud in 2014, total corruption, poor organizational skills, and institutional weaknesses have delayed some of these projects for more than four years. Only in 2018-2019 these projects are expected to complete. In the same release, the authority claims that as many as 300 kilometers of local roads have been repaired thanks to a loan from the World Bank. On the other hand, a report published by a former transportation ministry suggests that in the case of four roads repairs have yet to start in 2017.

Who needed this sort of disinformation? Foreign Minister Andrei Galbur or perhaps Prime Minister Pavel Filip? Or perhaps we'll blame the Ministry of Foreign Affairs and European Integration for lack of specialists. Certainly the Ministry of Economy and Infrastructure does have accurate information in this regard.

Smoke getting out of industrial parks

Nor is the Ministry of Economy and Infrastructure (MEI) sinless. Sometimes it shares doubtful information. Take for example a press release it published on September 1, 2017, which claimed that foreign direct investments in Moldova increased by 24% in the first half of this year. When Mold-Street asked for clarifications from the ministerial press service about the figures, the information was promptly updated – the figure envisaged the first quarter only.

It wasn't the only time MEI shares questionable messages. For example, it announced that the ten industrial parks Moldova has attracted 53.4 million lei in investments during the first half of 2017; overall investments in those parks amounted to more than 1.1 billion lei in the past six years. So we wonder: How much did they attract during the first half of 2016? The answer is necessary in order to see whether they performed better or worse. The same authority said in May 2016 that by the end of March 2016 the parks reported around 1 billion lei in investments.

The basis for comparison can be deduced from another press release, from which one can learn that overall investments in Moldovan industrial parks represent less than 1% percent of total investments in the economy of the ex-Soviet state in the first half of this year. Although the authorities give them a great deal of importance, in fact they have a minor impact.

How Russia invested 4.5 billion dollars in Moldova

The Government, as the cabinet of ministers is called often as a collective body, too disseminates unverified information. It published a press release on the official website Gov.md on March 2017 claiming that 900 companies with Russian capital have invested around 4.5 billion dollars in Moldova. But no one would ever find these figures at the National Bank of Moldova, or at MEI, or in official Russian statistics.

The central bank's accounts show that as of December 30, 2016, the balance of foreign direct investments was 3.85 billion dollars, which is one billion dollars less than the number which the Government attributed to Russian investments.

Why isn't economy dying?

Neither may we neglect manipulating information which some economic specialists used. It is the case of the former chairman of the parliamentary commission for budget, economy, and finance, Veaceslav Ioniță. He announced on August 15, 2016, that the Moldovan economy was "simply dying." Indeed, the state of Moldovan economy was not a motive to cheer about, but the information the ex-legislator published did not back up his claims. „There's a continued decline in the loan program for our economy. In the second quarter of this year the balance of loans amounted to 34.2 billion lei, compared with 47.2 billion lei in the third quarter of 2014; the decrease accounts for more than 13 billion lei," Mr. Ioniță said.

If you look at these numbers, you can get scared. Things look better if you admit that the ex-head of the Parliament's commission for budget, economy, and finance got it all wrong. The first number, 34.2 billion lei, should be the balance of loans as of June 30, 2017 – not the amount of loans granted in the second quarter of 2017. If in three months such a volume of credits were granted, then logically we should have witnessed a blowing economy. In fact, the volume of credits granted in the second quarter was only 6.3 billion lei, which is five times less than the figure announced by the former MP.

And there's one more thing. In a strange way Veaceslav Ioniță compares the data for the second quarter of 2017 with the records of the third quarter of 2014, exactly at the time when the three banks controlled by the Ilan Shor holding and involved in the fraud posted "inflated" reports with dozens of billions of lei. Another strange thing is that none official or public authority reacted to Mr. Ioniță's claims.

When one dollar will cost 32 lei

Someone may say that it's not a big deal to let a mistake slip into a published article. The figures posted by Veaceslav Ioniță were reproduced by many media organizations and sometimes such reports may play a bad part. Eighteen years ago a story aired by the official news outlet Moldpres – and reproduced by radio and television stations – generated a true panic in the currency market, leading to the depreciation of the national currency Leu by almost 20% vs the US dollar days later. In early May 1999 the US currency was traded for 10 lei; on May 13 the exchange rate was 1:10.5 and on May 15 it was 1:11.6. In the black market one American dollar traded for 12 Moldovan lei.

The prime minister of that time, Ion Sturza felt obliged to step forward with a statement denying the information run by the media. It all started with an erratic interpretation of the figures from a study published by the Strategic Investigations and Reforms Center (CISR). The story explaining the findings claimed that the US currency would trade for around 32 lei apiece by the end of that year. In fact CISR predicted this rate only in the case of a very pessimistic scenario for Moldovan economy, a couple of years later. The optimistic version hinted an exchange rate under 12 lei until the end of 1999. Eighteen years on Moldova is still far from that pessimistic prediction and few would dare drawing forecasts when the Dollar will hit 32 Lei.

Russian embargo and denomination of the Leu

Eleven years ago, soon after Russia imposed its economic embargo for Moldovan wines in March 2006 and began inflating the price of its natural gases, a number of economists in Moscow and in Tiraspol chanted about an imminent default in Moldova, speculating with statistical figures to emphasize the threat. Supported by Russian media, a pro-Russian movement in Chisinau mounted on a propaganda spree to warn about a possible denomination of the Leu.

At the same time, all international lenders announced their decisions to unlock the financial assistance for the country and give its government new millions of dollars. As a result the Leu began losing ground versus the Dollar and the National Bank was caught compelled to issue an official statement denying such a danger.
About media responsibility

The series of this kind of news and posts may continue, especially as regards the use of data and numbers in election campaign, but it makes little sense. We are sure that Moldovan officials will continue to use "surprising figures" and credulous media will continue disseminating unchecked and inaccurate information.

Moldova is not alone in this regard. Such cases happen everywhere. With one major difference: Any media organizations engaging in the dissemination of false news lose their credibility immediately and readerships, respectively. Well, unfortunately this is not happening in Moldova. We believe that journalists must develop skills to doubt any information and to verify the numbers shared by politicians and government officials. These in turn will continue efforts to manipulate with numbers in a hope than no one will check up. The upcoming election campaign will be a fertile field for such activities. ©

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A Tax Innovation from Economy Ministry: „Fiscal Relaxing" for the Rich

The Economy Ministry has proposed a flat income tax of 15% for all individuals valid as of 2018, and increasing the personal tax exemption up to the minimum subsistence level of 1,800 lei as well as other major exemptions and the exemptions for supported persons. "The experience of Central and Eastern European countries shows that many of them used or continue to use this model of taxation: Estonia, Lithuania, Latvia, Russia, Serbia, Ukraine, Slovakia, Georgia, Romania," says a summary of proposals and objections related to the draft fiscal and customs policy papers for 2018, which was published on the website of the Finance Ministry.

Fiscal relaxing for high income earners only?

While not a new topic it pops up from time to time in the public debate arena. One of arguments in defense of this kind of tax regime is that it "cleanses" the incomes. In March 2008 Expert-Grup Center maintained in an analysis paper that the progressive tax system in effect today "is non-stimulating and is a reason why evasion schemes and pay delays exist among taxpayers within the large income pool."

"All the countries that have introduced the flat tax regime have experienced successful tax collections as the base for tax calculation improves (declaration of real incomes) and the number of tax-payers increases (reduction of informal employment). In this context the purpose of the progressive tax system for individuals is of social nature, rather than economic. Under the economic aspect this kind of system encourages fiscal evasion and informal employment," the think-tank found. In Europe, a large number of countries use the flat tax system: Romania 16%, Bulgaria 10%, Belarus 12%, Bosnia and Herzegovina 10%, Estonia 20%, Hungary 15%, Latvia 23%, Lithuania 15%, Macedonia 10%, Russia 13%, and Serbia 12%.

Every time it comes to Moldova, the Finance Ministry blocks such initiatives. This time is not any different. "The introduction of the a flat tax rate on personal and corporate incomes instead of the present progressive tax regime, and increasing simultaneously the size of annual exemptions, contradicts the principle of social fiscal justice in case of individuals, which implies a differentiated approach that towards low-income taxpayers who benefit from tax exemptions," the Finance Ministry insists. Should Moldova shift to the flat tax system, it goes on, only high-income individuals would feel the effects of fiscal relaxing; they would gain twice: lower taxes and larger exemptions.

Expert-Grup economists dismissed the fears of the finance authority in 2008. "Speaking about the allegation that the introduction of a flat tax regime would be good for the rich only, this argument may be easily played down starting with its formulation. Rich people shall not benefit from any advantage from the flat tax system because they don't pay taxes from wages. If yet they receive wages, these are small, and the true wealth comes from profits (dividends). As a consequence, the measure will be particular helpful for the middle class, which everyone expects to be born and which needs to be encouraged to become a driving force for economy," Expert-Grup said in its analytical paper.

Social frictions and increase of other taxes

The Finance Ministry also argues that the flat tax regime would harm the individuals who earn under 3,500 lei a month, post-taxes, as they would pay approximately 60 lei more for each 1,000 lei. This would apply particularly in the public sector and adds fuel to the risks of social frictions. Finance officials also estimate a slowing-down in tax collections and public expenses, suggesting that the government would be forced to increase other taxes and duties, and the fiscal burden respectively. Another argument against is that the tax system reform review needs to go hand in hand with the social benefits system for a more accurate matching of projected and real outcomes.

The example of Romania

Take the case of Romania. It applies a flat income tax of 16% since 2005. Before that, the tax rates spread between 18% and 40% but the system was a hybrid chewing a flat tax and a progressive tax based on income level. Individuals who used to earn more than 1,300 Romanian lei (around 325 US dollars at current exchange) paid 40%, given that the average wage amounted to 768 Romanian lei in 2014. At the beginning of 2017, the Romanian Academy found that among European countries Romania scored the largest gap in wages and recommended to scrap the flat income tax regime as “one of the solutions aimed at reducing the gap.”

The academy suggests introducing a second progressive level of income tax for large earnings, for example three times the gross average wage in Romania. "Romania has recorded a high disparity as a result of the unwise employment structure and unfriendly remuneration policy. It is necessary to reduce this inequality towards the average European indicators…” a Romanian Academy policy study reads in Mold-Street translation. The document, titled “Romania Development Strategy for Next 20 Years”, addresses the core economic issues in the country.

Trade unions want a new tax system

Back in Moldova, the domestic Confederation of Trade Unions (CNSM) sees a different solution: it suggests a third tax threshold. CNSM wants to keep the first two thresholds – 7% for the annual taxable income under 31,140 Moldovan lei, and 18% for the annual taxable income above 31,140 lei – and add a 22% income tax for annual earnings larger than 240,000 lei. The unionists point to “European experiences.”

In European countries, CNSM argues, people with large earnings pay the maximum bill. For example, rich Swedes, Lithuanians and Latvians pay 25%; rich Estonians pay 26%; Bulgarians, Poles and Portuguese 40%; Slovaks 42%; Italians 45%; Austrians 50%; Belgians 55%, and Dutch 60%. Setting up a 22% tax for rich Moldovans – compared to 60% in the Netherlands – is quite fair, the unions believe. The organization has already estimated the impact onto the public budget: plus around 172 million lei a year.

Risk of informal payments

This too isn’t good enough though for the Finance Ministry. "Setting up a new income tax threshold (22%) and adding up a new layer of taxable earnings could motivate tax-payers to accept informal wage payments and could lessen the budgetary inflows from income taxes, social welfare duties and health insurance fees,” the authority further defended its stance. As a matter of fact, the Finance Ministry has analyzed a scenario with the third threshold, which didn’t impress its specialists, who said that it would bring just 53.84 million lei into the public coffers, or three times less than CNSM had calculated. And yet the main reason to turn down this scenario is that it could feed a widespread habit of informal payments, the ministry concluded. ©

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Candu’s Laws against Dodon’s Laws

The Moldovan Parliament convened on Thursday, September 21, in its first plenary session of the autumn-winter period in order to cast a repeated vote in favor of nine draft laws that had been turned down by President Igor Dodon. The lawmakers also want to pick up a candidate for the defense ministry leadership and search for evidence of constitutional breaches by the chief of state. Parliament Speaker Andrian Candu announced that three more draft laws were still being debated within commissions and would be added to the agenda some time later.

Candu against Dodon

Mr. Candu earlier argued that both the economy and ordinary citizens needed the legislation in question and that Mr. Dodon was hiding behind personal vanity and interests. "We believe it is unacceptable to deprive the citizens of Moldova from certain benefits these laws will bring, just because President Dodon cherishes certain interests or vanity. Dodon's selfishness must not harm the lives of citizens," the head of parliament stated.

There was an immediate reply from President Dodon, who accused the Democratic leader of parliament of manipulating the public opinion regarding the true reasons for which the legislative majority needed those laws. He explained why he rejected the drafts. "In this context, some clarification is necessary: the bills which I have refused to promulgate and which the Parliament seeks to pass urgently refer to subjects of major importance for our society. I attached the explanations why I did so to each one of them," Igor Dodon noted in a Facebook post. Both Candu and Dodon were specific on three or four laws only out of nine that await a new vote amid the president-parliament ping-pong.

Mold-Street has reviewed the reasons why the president turned down the laws in question and why they matter for Moldova:

1. <u>Law on Energy Security.</u> This document gained commission approvals and a first positive vote in Parliament in late 2016 but Igor Dodon noted that it would give "the National Energy Regulatory Agency (ANRE) the privilege to write by itself its own budget and to control the size of wages of its employees, a prerogative that rests with the lawmaker."

"The wages in public institutions starting with regulatory agencies and finishing with state-owned enterprises may not be significantly larger than the wages of teachers, doctors, and other specialists who are truly important for this country," Mr. Dodon wrote in his post. And yet this law, once enforced, would enhance the independence of ANRE, in compliance with the E.U.'s Third Energy Package requirements, and would let the regulator impose financial penalties and sanctions to operators in the market.

2. <u>Amendments to the Code of Science and Innovation and the Code of</u> Education are designed to reform the Moldovan Academy of Sciences. According to Dodon, the proposed changes would literally kill the Academy and would isolate the national education and science system from the international one. "I am absolutely convinced that the true purpose of these initiatives is to strip the Academy of Sciences of its properties: buildings and fields, which later would be sold," the head of state maintained.

Indeed the initiatives provide for transmission of all research institutes from the Academy into the subordination of the Education Ministry while giving control over the Academy's assets to another agency. And the Moldovan Academy of Sciences may be described as a "rich" establishment: according to the latest assessments in late 2015, its 26 institutes own assets of around 1.3 billion lei. This figure reflects the official registers but not the market values.

The academic society, too, criticized the initiatives that the Government and the Parliament hastily approved. For example, Academician Teodor Furdui, head of the Academician Council, asked Prime Minister Pavel Filip in an open letter to stop what he called "a stupid reform". The authorities had not sought any prior opinions from the academic society and continuing this reform would be "a fatal mistake" and would "paralyze the scientific activity" in Moldova, Mr. Furdui said.

3. <u>Amendments to the Labor Code</u>. These initiatives appeared partly at the insistence of the business environment, as the present-day Labor Code looks like a book of archaisms. Some initiatives translate four directives of the European Union regarding labor legislation and others adjust the existing regulations to the requirements of the modern market economy.

The president said he feared that the changes would harm the socially-vulnerable groups of society, in particular veteran mothers and retired elderly. Among others, the Government proposed: cutting the period of additional unpaid leaves for child care from six down to four years; enabling employers to fire employees who reach the retirement age; sparing enterprises and institutions from registering their contracts with employees.

On the other hand, foreign investors claim that in its actual form, the Moldovan Labor Code poses serious impediments to effective entrepreneurships. "Flexible labor relationships represent an important factor for creation of a competitive economy, which is able to easily adapt to the market conditions," says the 2017 White Book of the Foreign Investors Association. While the organization greets the labor initiatives it also recommends that Moldova drafted a new Labor Code.

4. Law on Meal Tickets. Speaker Andrian Candu is the "parent" of this document, which sets out a supplementary social protection mechanism for employees by allowing employers to share meal tickets worth 45 lei (a bit more than 2$). This sum would be a supplement to workers' basic wage and the tickets could be used in canteens, cafes, restaurants or in food stores. Tickets would not be exchangeable for cash or a reason to cut down wages.

According to Mr. Candu, this initiative aims to reduce informal remuneration and tax evasion. Some European states have enforced a similar mechanism, such as Italy, France, the Czech Republic, Hungary, and Romania among them, the author argued.

President Igor Dodon on the contrary sees "a plan for a big tax evasion" behind this initiative. Nor is the expert community happy with the Candu initiative. Expert-Grup, a think-tank in Chisinau, said the tickets-for-meal proposal would not help to solve the problems which Mr. Candu had named.

5. Law on Prevention and Fight against Terror. This document builds a law and organizational framework for prevention and fight against terror in Moldova, and a basis for coordination of the anti-terror units, standard responses from the central and local public authorities, businesses and civilian services.
President Dodon declined the document on the ground that the activities related to the prevention and fight against terror, or the management of the Operational Anti-Terror Center was no longer a matter under his jurisdiction. This is a parliamentary business and a direct competence of its speaker, he observed.

6. Amendments to the Law on State Awards. President Dodon explained that he was rejecting this initiative on the ground that it provided for the institution of jubilee and commemorative Crosses as distinct awards. There are sufficient state awards and no new medals or crosses are necessary, the chief of state defended his decision, adding that it was unclear who would cover the expenses for these new awards.

7. Amendments to Article 19 of the Law on Government and to Article 4 of the Law on Administrative-Territorial Organization of Moldova. It is not clear why those amendments have been rejected.

8. Amendments to the Law on Roads (Articles 1, 2, 3, etc.) and to the Fiscal Code (Title IX, Annexes 5 and 6). The reason why the president rejected the changes here were not immediately available.

9. Law on Environment Protection (Articles 3, 8, 10, 15, 16). In compliance with the Government's proposals, the above-mentioned articles need to be updated in order to improve the mechanism of calculation of fees for pollution and pollution control procedures. In particular, the authorities want to hack the fees for packaging made of cardboard, plastic, and aluminum.

The president in his response said that the legislative innovations would harm domestic producers but favor importers unjustifiably. Also, the public revenue coffers would receive less cash while businesses and individuals would be exempted from covering the damage for pollution, he argued.

Mr. Dodon pointed to Finance Ministry estimates showing that the national budget would lose around 140 million lei in 2017 alone should the changes to the environmental legislation take effect. The amendments to the Law on Environment Protection are present in the parliamentary session agenda, which was delivered to journalists by email, but they are absent on the Parliament's website. ©

Defense Security Economics or What Kind of Army Moldova Needs

War remains the greatest source of threat for Moldova's national security and it is a matter-of-course to put the term of security into concepts of power and peace. What is the national security of Moldova from the military point of view? In spite of a multitude of scopes and sectors where security might be addressed, this article tackles its economic side. In addition, an increasing number of researchers are questioning whether the country needs an operationally active army, a professional force with well-trained personnel and up-to-date weaponry.

Symbolic financing for armed forces

The financing of the Moldovan armed forces is purely symbolic (less than 0.4% of GDP) and from the military point of view they are not capable of facing a major challenge or resisting an aggression. The manpower in the ex-Soviet republic – including carbineer troops, which are military ranks – counts around 11,000 personnel, including technical staff. From the technical point of view, Moldova's arsenal would be less than 1/3 of the endowment of the Russian contingent based in the Transnistrian region of Moldova.

Given these circumstances, some might justify the decision of President Igor Dodon to withdraw the draft National Security Strategy and the draft Action Plan. The chief of state argued that the document was no longer up-to-date with the latest changes at national, regional, and international level.

As a matter of fact, the National Army has never gained a visible place in any government agendas. Since 2009 the spending in this sector has been insignificant compared to the budgets of other sectors that are similar in terms of population and territory. In 2017, for example, the Parliament allocated 0.37% of GDP for defense needs, and this amount would barely cover the operational costs only.

When we speak of defense expenses, Moldova is far from being on the same footing with Macedonia, or Georgia, or Ukraine, or Russia. Not to mention Israel (11%) or Saudi Arabia (over 21%). On the other hand, the participation of Moldovan military in a variety of UN-led international peacekeeping operations changes their status in some regard. They receive proper equipment, training, and daytime allowances. The latest political battles between the president, executive, and some parties around the participation of Moldovan soldiers in multinational exercises and international operations just adds oil to the fire and may thwart the efforts to modernize the army.

Moldova lacks capabilities and cash for modernization

Looking back at Moldova's experience, it is clear that this ex-Soviet country is not able to modernize and strengthen its armed forces alone – it has neither the capacity nor the resources for that. Moreover, it would not be able to face at least the Russian army group based in its breakaway republic, Transnistria.

And yet things even can get worse. Given the permanent budgetary constraints, the resources allocated for defense have been spent irrationally. Over the past decade Moldova has been unable to complete any major reforms in the army and has not prepared any strategies for national defense that would guide the military security sector. The structure of the army obsolete and has never been adjusted to new realities and security challenges.

Moldova is dragging behind in the defense spending chart, not only regionally but also at the international level. Even worse, the structure of spending in the defense sector is irregular and has been a subject of frequent changes in the past years. The largest part of defense expenses is used to the personnel maintenance (more than 66%) and capital investments are insignificant. The Moldovan defense budget has oscillated between 0.3 and 0.5 percentage points during the past 15 years.

Aside from Russia and Turkey, in 2017 the largest defense budgets in the eastern zone of the continent were allocated by Poland (10 billion dollars); Romania (over 3.3 billion dollars); Greece (2.9 billion dollars); Ukraine (2.6 billion dollars); the Czech Republic (1.8 billion); and Hungary (1.2 billion). Other states spent less than one billion dollars, a Jane's Defence paper says. By comparison, Russia will spend almost 70 billion dollars for military purposes, or 6% of its GDP.

Outdated equipment

The Moldovan army currently uses Soviet-era weaponry and equipment, which is degrading every year. Endowment has been too expensive and needs years of implementation of defense programs that would survive electoral cycles. The austere budget of the armed forces barely covers the most elementary operational costs. Modernization of a single MiG-29 fighter jet out of a handful of currently grounded aircraft would cost 10-15 million euros – this is almost half of the country's defense budget. There is no sign whatsoever that the republic would be able to afford flying any of those planes in a near future.

Army officials who spoke under the condition of anonymity say that the further development of the armed forces are hampered by bureaucratic hurdles, nonfunctional equipment, but also problematic food supplies. In the security zone along the Transnistrian region Moldova has deployed soldiers who carry out their duties amid shortages and hardship, but little training. Furthermore, they said the state of air security is dramatic. These are the costs of Moldova's military neutrality, which isn't really helpful for its defense and security. By comparison with Switzerland, which is also a neutral nation from the military point of view, Moldova is on the opposite pole. In Switzerland, the army and the people are indispensable.

Switzerland's territory is almost similar to Moldova's, but the population numbers almost 8 million permanent residents (2.7-fold larger than Moldova's), and its GDP is estimated at more than 500 billion dollars (75-fold larger than Moldova's). In case of war, Switzerland is capable of recruiting a 1.7-million-strong manpower, which is 22% of its population. Its defense budget is relatively small – 8 billion dollars – and accounts for 1.6% of GDP. The active duty Swiss army numbers around 680,000 soldiers and officers, or 9% of the population, while the Moldovan army hardly numbers 9,500 persons, according to 2017 figures. Looking at the facts from a monetary point of view, Moldova spends a bit more than 554 million lei (33 million dollars), which is 1.6% of public revenues. This sum should cover the operational activities, endowment, training, and development.

From neutrality to military diplomacy

For comparison, the budget for the Ministry of Interior Affairs – which controls specific units for security and public order such as Carbineer Troops, National Police, Border Police, and others – amounts to 2.26 billion lei. This is four times more than the defense budget, or almost 7% of public revenues and more than 1.5% of GDP.

The overall spending for security and policing however is larger if we count the Security and Information Service, the State Guarding Service, the Justice Ministry and some specific departments of the Ministry of Interior Affairs: 3 billion lei, or more than 9% of public revenues, or more than 2% of GDP. Two per cent of GDP is the minimum spending that NATO requires from member states. The manpower of the security and policing organizations in Moldova is double above the personnel number of the armed forces.

Given this conjuncture, a natural question comes to our minds – does Moldova really need to keep the status of military neutrality (and preserve its army in current conditions) or perhaps a sort of military diplomacy? The changes in the international arena have transformed the so-called defense diplomacy (= military diplomacy) from a study subject into an active component of foreign policy. The military diplomacy concept has been used as a foreign policy instrument for a while and Moldova might learn the experience of other states how to apply it in public service. ©

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Government Considering to Cut Down Spending as Financing for International Projects Is Melting

The Government led by Premier Pavel Filip is considering to lower its expectations from international donors by an equivalent of 2.34 billion lei; of this almost 860 million lei had been expected from loans for budgetary support and 1.57 billion lei had been expected from loans for various development projects. The cuts in the international assistance will give a strong blow to a number of projects that are being implemented with the support of international donors. The Moldovan Finance Ministry has said around 20% (almost 547 million lei) will be missed from international assistance for projects expected to complete in 2017.

Cash fraud and failure to comply with agreements

"This [decision] mirrors the trend of implementation of internationally-funded projects in the eight months of year 2017, which determined a revision of expected financing by the end of the year," the Finance Ministry explains in a note accompanying a draft amendment to the 2017 public budget. Another reason, it continued, is that "some beneficiaries of funding for those projects" misused the resources and breached the funding agreements.

Representatives of the projects and institutions concerned have denied any fraud schemes. The Finance Ministry meanwhile has come forward with a list of projects that suffer funding reduction this year, and MoldStreet has analyzed in detail some of these.

No modern water supply system for the north

A much wanted project envisaging the implementation of a modern water supply system in northern Moldova will receive nothing; it was assessed at 142.5 million lei and expected to complete by January next year. The Finance Ministry note reads that the money had been allocated via the government-controlled regional development fund but then it was used for other purposes while the international resources remained blocked due to failures to comply with agreements. Given that the total cost of the project is almost 20 million euros (around 415 million lei), almost one third of the budget will be unavailable.

The water supply project was first announced six years ago and was expected connect the municipality of Bălți and six districts in northern Moldova (Soroca, Florești, Drochia, Rîșcani, Sîngerei, and Telenești) to a modern supply system. The investment would have resulted in the rehabilitation of the Soroca-Bălți aqueduct and other major network pipes and connections, reducing thus the water losses and the consumption of energy for services.

The Moldovan government waited for the money in 2014 till 2018, in equal quotas of 10 million euros from the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). Disbursement however has been difficult because of bureaucratic tricks in Chisinau and frictions between the central and local public authorities. Not last, some service providers selected as beneficiaries in this project had been reported as being involved in various schemes and embezzlement.

Road rehabilitation project – taking off 100 million lei

The second major project to lose the funding is the road rehabilitation program which both the EBRD and the EIB had pledged to support. The government will be unable to find 100 million lei for its implementation, which costs almost 680 million lei. The budget of this project will be 15% shorter than planned.

A governmental board for supervision of the project, led by Prime Minister Pavel Filip, announced in April 2017 that a part of service providers had failed to carry out their obligations properly and that the rehabilitation process was very slow. The board recommended that the failing contracts be cancelled and the cabinet did so. „I regret that such a situation has occurred, that so much time has been wasted and that the roads have remained undone. We'll be more cautious in the future," Mr. Filip was quoted as saying.

No is the Local Roads Rehabilitation Project doing better – the World Bank had pledged 80 million US dollars over the next years for its implementation. This year the spending will be almost 50 million lei shorter than planned.

Rural development and adaptation to climate changes

The Rural Program of Inclusive Economic-Climate Resilience (IFAD-VI) is on the third spot. Its budget will be almost 56 million lei shorter – an amount that covers 78% of the spending for 2017. Launched in 2014, this project is expected to complete in 2020. It is a nationwide initiative and is being implemented in all settlements of Moldova, except for the cities of Chisinau and Bălți, as well as the Gagauzian and Transnistrian regions.

The overall budget of the IFAD VI program is 26.08 million dollars, of which 16.6 million dollars is an IFAD loan, another half a million dollars is an IFAD grant, 5.22 million dollars is a DANIDA grant, and 4.26 million dollars is a GEF grant. Beneficiaries of this project received grants for investments that increased the adaptability of agribusinesses to climate changes and for development of sustainable value chains in a variety of sectors – beekeeping, vegetable growing, and table grape production.

Modernization of the heating system in Bălți adjourned

This project with a budget of 46.8 million lei for 2017 will receive not one penny and the modernization of the heating system in the municipality of Bălți has been adjourned. With a total cost of 10 million euros, of which 3 million was a grant from the Eastern European Partnership for Energy Efficiency and Environment Fund and 7 million was an EBRD investment under milder conditions (15 years repayment, 3 year grace period, and a Libor +1-2% margin interest).

Călin Negură, head of the Energy Department at the Ministry of Economy and Infrastructure, dismisses any suspicions of frauds and says that technical problems need to be considered. "This project as far as I know needed to be completed by the end of this year, but it looks like none of its four component would be accomplished in this budgetary year 2017, given the withhold of cash by the funding parties and late coordination of technical documentation," Călin Negură told Mold-Street.

Less social residences

Another project hit by the shortage of funds is the Social Residences Construction II program: it will receive 43.2 million lei less this year. According to the Ministry of Agriculture, Regional Development and Environment, social residences in Moldova are built with a support of the Council of Europe's Development Bank (13.4 million euros for 20 years) and with 7 million euros in contributions from the Moldovan government. The second phase of this project is expected to complete by the end of 2018, when around 700 social residences need to be ready for new tenants in eight districts.

The project's manager, Iunona Lungul, explains that the district of Ialoveni will suffer a setback in the Social Residences Construction II program – instead of 94 apartments for socially-vulnerable families, just 30 will be built. The price of residences is 700-900 euros per one square meter, which is more expensive than in the capital, Chişinău (500-700 euros). That's because the social apartments are endowed with sanitary units, natural gas stove, autonomous heating systems including electric boilers, insulating windows, painted interior walls and ceilings, and laminated floors.

Competitive Agriculture

The Competitive Agriculture Project (CAP), funded by the World Bank, will have its budget for 2017 cut down by 40 million lei and many of its activities will be late. Liviu Gumovschi, executive director of the CAP Implementation Unit, says the setback is due to the construction of a regional laboratory in Cahul, which will begin in late December, rather than August this year. "The money will be spent next year, not this one, and it will be used to purchase equipment for the regional laboratory in Bălţi," he stated. Seventy-five per cent of the total budget of 45 million dollars has been already released and the project still have two more years to go.

Some lose, some win

Mind that these are not all the projects to see their budgets reduced this year. A project that aims at the consolidation of the institutional framework in the water supply and sanitation sector of Moldova, for example, won't get 25.6 million lei. The Finance Ministry explains the 92-million-leu shortcoming from international sources in the education system with the low capacity of absorption of funds, however it has not elaborated on this subject. On the other hand, other projects will receive more funds that initially planned. For example the acquisition of locomotives and rehabilitation of the railway infrastructure will receive an extra 63.3 million lei and the rehabilitation of power grids will get 46.5 million lei in addition to what was planned. ©

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Pension Reform: Dangerous Precedents from the Constitutional Court

A year ago the Parliament passed a law that kicked off a pension system reform, but there's been little activity on that side and it turns out that the Government – and legislators – already need to update the document. The main objective of the reform, the document says, is to guarantee a decent living for retirees, rather than just offer a minimum support for survival. Therefore, the system must be as sustainable as it can be and the benefits should be adequate.

Pension system – bankrupt and unjust

The pension system in Moldova isn't really capable of guaranteeing a decent living and it isn't sustainable either. Until December 2016, when the reform received green light in the Parliament, the pension system was largely unfair and not sustainable at all. The ratio of taxpayers and retirees was 1.1 : 1.0 and most retired elderly (92%) had received less than 1,500 lei (75 euros) a month. The average pension size in Moldova is 25% of average wages, Martin Hutsebaut, a Belgian expert, found in an analytical paper "Reform of the pension system in the Republic of Moldova: recommendations for improvement of the legal framework." - "The low official employment and high informal labor, small wages and informal remuneration, as well as the dramatic low confidence in the state institutions and in the pension system are the main reasons of these problems," the specialist reckons.

To address those problems, on December 16, 2016, the Moldovan parliament passed Law #290 to update the existing legal retirement framework.

Bad sides and good sides of the reform

Martin Hutsebaut named the components of the reform such as a) Adopting a new - more transparent - formula for calculation of pensions; b) Ensuring parity between payers and beneficiaries, and equality between men and women; c) Increasing the mandatory taxation period [up to 34 years] and raising the retirement age [63]; d) Providing for the possibility of early retirement; e) and Working out a new indexation formula. The new law, he stressed, does not meet the expectations of the working class and contains numerous flaws. The pension system reform can never reach a finite version, it's a "continuous working," the expert added.

The biggest challenge for the authorities is to find solutions that would increase the official employment basis and reduce severely the size of the informal economy.

Moldova also needs to explore the possibilities of establishing private pension funds, taking into consideration the internal economic, social and political context and examining this aspect very carefully. The Belgian expert suggests the modification of several articles, in particular those about the retirement of employees working in hardship and harmful conditions; the inclusion of the time consumed to look after elderly parents over the age of 75 in the taxation period; the indexation of pensions each time inflation grows over 2%; the diversification of social allowances depending on the duration of the contributory period; the extension of the rights to heir's pension; the payment of a larger pension for the work after retirement, given that employed pensioners continue to pay taxes.

What trade unions want

Sergiu Sainciuc, deputy chairman of the Moldovan National Confederation of Trade Unions (CNSM), has said that although the unionist leaders have been involved in the workings on the pensions system reform – and proposed a different concept of the reform – the final draft still needs changes.

“We maintain objections regarding the retirement age, in particular the plan to increase the reqirement age for women. We are glad with the clause on early pensions, which has been applied in the case of more than 2,000 men. However, it’s sad that the government cancelled the early pension for employees working in harmful conditions. The authorities have been cautioned about this aspect and we expect to find a solution. We also asked the authorities to update the trade unions about the reform’s progress so that we prepare timely feedback for its successful implementation,” Mr. Sainciuc stated.

Who seeks to dump the reform

The Belgian expert meanwhile found that certain public employees who would miss a part of their earlier retirement privileges were waging hostile actions that put the reform in jeopardy. It is the case of magistrates who want to retire earlier the the rest of public employees, under special conditions.

The Constitutional Court’s latest over-ruling of the changes to the status of judges, who have been obliged to retire under the general conditions, is counterproductive and may become a precedent for other categories of employees, dumping for good the reform itself, the specialist noted. Certain categories of functionaries, police, military, pilots and prosecutors still keep similar privileges, in spite of a promise made by the minister of labor, social protection and family - Stela Grigoraș - to watch out for transparency and fairness in the pensions system.

Martin Hutsebaut recommends an assessment of the reform after two years of implementation. The government might be required to increase the allowances as long as the efforts to curtail the informal economy remained below the expected targets. Such decisions as increasing the minimum wage and reforming the taxation system would be useful to back up the pension reform.

A law that discriminates

Think tank specialists and trade union leaders have spotted discriminatory clauses in the new reform. Pensions are recalculated only for retirees who have formally withdrew from active service after April 1, 2017, but continue to work. Those who retired before that date are not entitled to recalculation and capitalization of their retirement benefits. They recommend applying, ideally, the new principle of annual re-calculation of benefits for all pensioners, both older and younger. The same should be done with the capitalization of pensions, which is desired to be a retroactive action, because the pensioners who retired by January 1999 have never benefited from capitalization. Such a move would increase both the pensions and the incentives to report the wages in full, says Martin Hutsebaut.

Whatever the experts think, the authorities have shown no sign that the pension reform will be up updated, although the academic environment has trumpeted the near collapse of the social benefits system because of the abrupt decline in the number of tax-payers. The ratio of contributors and beneficiaries has approached 1:1 while a feasible system needs at least four tax-payers to one pensioner. ©

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Why Is Moldovan Currency Growing and For How Long

The National Bank of Moldova (BNM) recently approved regulation streamlining the conditions for operations with currencies. The document is expected to shine more transparency – and seeks public opinions as well – in a market that has risen through times reasonable question marks about the exchange rates. The central bank on several occasions made comments and shared explanations regarding the oscillations of the national currency, the Leu, which has seen lately its credit soar by 15% versus the US Dollar and by 5% versus the Euro.

Why Leu is going stronger

BNM says the appreciation of the domestic currency is a consequence of the surplus of international currencies in the

internal market, given that the supply from remittances and exports exceeds the demand and needs of importers.
In fact, the central bank almost always blames the domination of exports over imports for the appreciation, but this time the official statistical reports show a double growth of imports over exports during January through August. The trade deficit stood at 1.6 billion dollars. BNM further said that given the "excessive liquidity in the banking system and the large currency reserves at the National Bank (more than 2.6 billion dollars)" it deems unnecessary to purchase the entire surplus of international currency from the internal market.

Why BNM acts

Yet the central bank acts in the currency market, in spite of the fact that its fundamental goal is to stabilize the domestic prices in compliance with its inflation targeting strategy. The document, it's true, also provides for interventions in the market in case of an excessive volatility of the exchange rates and the consequent speculative activities. In parenthesis being said, the authority admits that things might get out of control – but assumes no legal responsibility.

Let's take things in turn. In Moldova, the official exchange rate of the Leu depends on its quotation versus the American Dollar, which is the reference currency for all other currencies. As a matter of fact, it used to be. The demand for Euro and its dominance in exports have changed the picture dramatically. At present almost 58% of reserves have been denominated in Euros, 38% in Dollars, and 4% in other currencies at BNM or in free circulation. Migrants' remittances have been on the rise and now account for 50% in Euros, 23% in Dollars, and 17% in other currencies. The Euro has come to dominate both the official reserves and the remittances between 2014 and 2017.

However, as official statistics also show an increase of remittances and abundance of international currency in the internal market, the Leu should normally depreciate and the economy should feel an inflationist pressure. Well, it's not the case of Moldova though. Such trends seem to be soap bubbles and sooner or later they blow with painful consequences to the disappointment of the largest part of the public.

To have a fair conclusion, it's worth looking at the US economy, which has been on a growth path lately and continues to influence oversee markets. The Dollar has depreciated strongly compared to the Euro since the beginning of this year. The Leu, respectively, has gained ground from the Dollar thanks to the American economic boom and the Dollar's lower role in Moldova's international trade.

The Euro-Dollar parity right now is 1.0 : 1.8 and the exchange rates in the Moldovan market somehow reflects the developments in the international markets. The consequences of the so-called currency war in the internal should not be surprising given that the Moldovan economy - open and vulnerable – is extensively exposed to its effects.

Who gains and who loses from a stronger Leu

A stronger Leu would harm exporters who until recently benefited from a weaker national currency and kept the economy growing in 2016, according to statistical reports. Ths may repeat in 2017 and the unattractive national currency for exports is not going to damage the growth as a whole. But a stronger Leu is playing well for importers who pay less for more Euros and are able to bring into the country more goods while satisfying consumers with cheaper products as well. Namely domestic consumption (with fees, duties, excises) was behind the real economic growth. The strong Leu is also convenient to bank clients who have to repay loans in Euros or Dollars, denominated in Lei. Not last to be said, the strong Leu is a factor that stops or slows down inflation and the growth of prices. Which again, is not the case of Moldova.

It is bad however for recipients of remittances who get less Lei at the exchange kiosks or banks. Poor rural residents who receive small amounts of, say, 100 Euros walk away now with 2,000 lei, or 200 lei less compared with 7-8 months ago. For elderly who such an amount represents their monthly pension, the loss is substantial. On the opposite side, there's a small group of people who pick up their wages in Dollars or Euros, denominated in Lei. And speculators. They are disadvantaged too.

In economic terms, however, the appreciation of the national currency is good for the government and for the common folk. That is because energy resources make up more than 20% of imports – natural gases, fuels, and other natural resources for which Moldova pays in US Dollars. Around 50% of these are natural gases, which are purchased from Russia. Only a sharp fall of the Leu would be bad for all.

What will happened to the exchange rate

The new regulation regarding the currency operations is expected to provide for more clarity and visibility for future currency rate forecasts. At the same time, it's complicated to make forecasts of currency rates, in spite of possession of relevant data and statistics. The saying "Guessing in a cup of coffee" would best describe the attempt to predict the currency exchange rates.

In Moldova the exchange rates depend more on the international market conjuncture but there are domestic factors too. They are three: the destination of exports, the importation of energy resources, and the politics. The 2017 budget had been drafted on an average yearly rate of 20.4 Lei for 1 US Dollar and 20.9 Lei for 1 Euro, for the yearend. The parliament recently amended the budget law to ground the rate at 17.85 Lei for 1 Dollar but the latest developments apparently would not keep this rate tied for a long time.

The appreciation might continue for a while but the ascending trend of the Moldovan currency at one moment will stop and then start its way back. Some business people are sure to bet for an exchange rate of 23-24 Lei per 1 Euro and 20-21 Lei per 1 Dollar, while some analysts talk about 19.5-20.0 MDL/1 EUR and 17.5-18.0 MDL/1 USD. It's difficult to guess which side is right. The important thing is to avoid an abrupt devaluation of the national currency this year. ©

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Bribes in Chişinău City Hall: From fireworks to Car Repairs and Thousands in Cash

The Chişinău Court has completed the legal proceedings and issued the sentences to three elected councilors: Valeriu Didencu, Oleg Onișcenco and Ghenadie Dumanschi - secretary, and, respectively, members of the Chișinău Municipal Council. They were arrested in late May in a joint operation conducted by the National Anticorruption Center (CNA) and Anticorruption Prosecution Bureau.The three municipal officials pleaded guilty and received suspended prison terms ranging from one to two years. A group of businessmen have been sentenced in the same dossiers. Three more businessmen who had tried to settle their needs by corrupting the officials are still waiting for their verdicts.

Mold-Street has analyzed the decisions issued by the judges in those cases and explored the connections between them.

Fireworks at the Municipal Council

The first to receive a sentence for giving a bribe was businessman Gheorghe Sârbu, manager and an associate with a 10% stake in New Solution SRL, where his partners are Gheorghe Cozma (40%) and Romanian nationals Popa Leonard Silvestru andi Puia Florian Tudor (25% each). Sârbu promised on March 20, 2017, to donate a professional fireworks battery Flower King 36 shots to Valeriu Didencu. He purchased the battery for 1,000 lei and gave it to Didencu two weeks later in return to "speed up […] the inclusion of a draft decision regarding the lease of land plots in the 91 Podgorenilor Street in the agenda of the Chișinău Municipal Council session." New Solution SRL would be the beneficiary of that decision.

Didencu kept his promise and included the document in the agenda. The Council on April 11, 2017, passed Decision # 3/20-3 that entitled New Solution SRL for the lease of two plots for a ten-year period, with no consequent permission for privatization. The firm had waited for this decision for two years. During the investigation, the businessman pleaded guilty and expressed remorse, and the court handed down a suspended two-year prison term in a semi-closed penitentiary to him, plus a fine of 75,000 lei (960 US dollars).

Mr. Sârbu thus received a two-year probation period instead.
Offer from "ice-cream baron" for the secretary's daughter

Another businessman to get a sentence was Vasile Drangoi, owner of the ice-cream maker Drancor, which has applied for protection from creditors under the bankruptcy clause. The court found that the businessman visited the Council secretary in his office in early March 2017 and offered services and favors in return for a faster resolution of Drancor's request to buy a land field from the municipal administration. The field in question is adjacent to the factory premises (78 Burebista Street).

The court also established that Mr. Drangoi had promised to Mr. Didencu to take his as an associate partner in a joint venture for the importation of dairy products. The secretary's daughter, Evelina Didencu would have been the chief executive manager of the future enterprise. The would-be partners had agreed to share equally both the revenues and the expenses (for purchases of raw materials – 54,000 euros). The businessman also promised to repair Evelina Didencu's motor vehicle, which had been hit and damaged in a car accident.

Vasile Drangoi has admitted the wrongdoing and asked to be sentenced based on the findings provided by the police in the first phase of investigations. The court ordered him to pay a fine of 75,000 lei in compliance with Article 326 of the Criminal Code --- although this article requires a fine of at least 150,000 lei or a three-year imprisonment. The court also decided to give back 2,500 dollars in cash which the police found on Mr. Drangoi during a search and seized as evidence.

Dumanschi as a cash collector for Didencu

Ghenadie Dumanschi is the first of the Chișinău Municipal Council members to get a sentence, on August 4, 2017. Prosecutor Ion Munteanu asked for Dumanschi three years in a semi-closed penitentiary and a fine of 100,000 lei, with a suspended sentence and three-year probation period. The court heard that Mr. Dumanschi had promised 1,500 lei (less than 90 dollars) and Mr. Didencu accepted the cash in return for inclusion of a new topic in the session agenda of the Council.

Mr. Dumanschi acted on behalf of businessman Ivan Sîngurean who was seeking the prolongation of a lease contract with the municipal administration for a a field at 4/2 Sargidava Street in the capital. Mr. Sîngurean submitted a formal lease request for that plot in July 2015 but has received no positive settlement for his application. Dumanschi and Didencu had been office neighbors before being convicted. The secretary asked up to 1,500 lei to look for the businessman's "lost" request and ultimately put the application for debate in the Council, which in turn passed a favorable decision and renewed the contract with Mr. Sîngurean.

Dumanschi has also admitted the wrongdoing. The court awarded him a suspended one-year prison term and a fine of 100,000 lei. By the time the court issued the verdict, Dumanschi had been in preliminary detention for two months, until July 26, 2017. He was a member of the Council since 2007 on behalf of the Moldovan Liberal Democratic Party (PLDM) and in 2010-11 he served as the chairman of the Council. He quit from the PLDM in March 2017 over what he cited disagreement with the party leadership on a range of issues.

How Lukoil and other gas station operators get their problems solved

Another verdict was handed down on September 9 to Mihai Nebesnâi. He had worked for a long time at the Moldovan subsidiary of the Russian petrol giant Lukoil and represented a-Lukoil affiliate company called Grand Oil. A RISE Moldova investigation has demonstrated that Grand Oil bought and sold many land fields in the Chișinău municipality for construction of gas stations.

In March and April 2017 Nebesnâi visited Valeriu Didencu many times at his office in the City Hall in order to persuade the latter to hurry up with the issue of permits for construction of three gas stations in the capital: one at 23 Spartacus Str., where Lukoil Moldova manager Feyrus Isaev personally owns the plot; another at 116 Ismail Str., where land is owned by the state-run tobacco company Tutun-CTC; and the third at 3 Dimo Str.

The court found that the City Hall specialists had prepared the required documentation that would have given green light to the construction project, but Mr. Didencu had refused to let the topic enter the public debate in the Municipal Council. Nebesnâi tried to have the matter solved as soon as possible. Didencu then went straight forward by saying that he wanted a reward for his efforts without naming the price and Nebesnâi offered him 2,000 dollars in return for the secretary's signature on all three gas stations' designs. The businessman handed an envelope with cash the same day, in the City Hall premises, the court learned. It took a while but the matter finally got solved.

The requests for which the solicitors offered money had been waiting for resolution since 2008, it comes out from the court documents. Nebesnâi was declared guilty for active corruption and he was ordered to pay a fine of 90,000 lei. The judge explained to the convict that he could pay half of this amount in 72 hours and the entire fine would be considered paid off in compliance with the legislation in effect.

Corrupt secretary

The now ex-secretary of the Municipal Council received his verdict on October 9, 2017. Valeriu Didencu, who quit from office during the investigation, is the central piece of all these allegations on corruption. The list of bribes is quite long – from fireworks and repairs of his daughter's car to cash of hundreds and thousands of dollars and euros from various persons. He asked or accepted the bribes in return for his influence over the agenda of the Council sessions.

Valentin Didencu was found guilty on seven counts of charges. Nonetheless he qualified for only two years in prison, a five-year ban for public jobs, and 155,000 lei in fines --- this sentenced being reduced by the judge down to a one-year probation only. The cash that was found at his home during the search – 118,000 lei and 2,300 euros – which Mr. Didencu could not prove as his own, and the illegal gifts he had received from business people have been all seized and confiscated.

Councilor helping gas stations thrive

Socialist councilor Oleg Onișcenco was sentenced on October 16, 2017. During the arrest he tried to get away. The court materials show that he had pressured on Didencu to speed up the renewal of a lease contract for 1.18 hectares at Nicolae Testimiţeanu Street for another five years. Trevis SRL, which is controlled by brothers Leonid and Alexandr Kilovatîi, was the beneficiary of that contract.

Mr. Onișcenco also defended the interests of Fibexmol SRL, another private entity that sought to expand the field of a gas station at 24 Trandafirilor Street, which operated under the Rompetrol brand. An investigation conducted by Anticoruptie.md reveals that Fibexmol had absorbed the field around the gas station in the Trandafirilor Valley Park, piece by piece, with a permissive attitude of the municipal authorities. This firm was registered in November 2010 by Antonin Spînu and Nicolae Boghiu and is based in Mileștii Mici, Ialoveni District. The court sentenced Oleg Onişcenco to two years in prison and a fine of 100,000 lei, plus a three-year ban on public jobs. But he won't spend a day in prison, because the court suspended the enforcement of its ruling with a two-year probation. ©

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Why Moldovan Government Seeks to Privatize Iaşi-Ungheni Gas Pipeline

The list of assets which the Modovan Government put up for privatization in the third call includes Vestmoldtransgaz, a state-run enterprise which the authorities created in 2014 to manage the future gas pipeline Iaşi-Ungheni and to transport natural gases across the Moldovan territory. The price for Vestmoldtransgaz is 180 million lei (9 million euros), plus an obligation to invest some 93 million euros within the next two years in the acquisition after the takeover.

The Agency of Public Property has not published the reasons why the Government decided to sell Vestmoldtransgaz or the specific conditions for participation in the tender.

Why Moldova gives up on a 92 million euro financing

This is apparently a surprising move given that the authorities have prepared for a tender for extension of the pipeline from Ungheni to Chişinău as the project that would connect the Moldovan gas distribution and transportation system to Romania's has advanced to the second, final phase. The first phase completed in 2014 and it is necessary to build an additional pipeline of 117 kilometers from the border city to the capital in order to finalize the project.

Moldova also negotiated - and it looked like the sides agreed - that the European Union, the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB) would contributed a total of 92 million euros for the pipeline linking Ungheni and Chișinău. The EBRD and the EIB would lend 41 million euros each while the EU would offer its share of 10 million euros in the form of grant. Moldova's commitment was only one million euros. The Government had already approved, and the Parliament of Moldova ratified in the first reading the agreements with the EBRD, the EIB, and the EU for this project.

The plan to sell Vestmoldtransgaz into private hands may determine the three funding parties to scrap the agreements and Moldova would lose both the lending under mild conditions and the 10-million-euro grant The Moldovan Government admits this might happen. In July 2017, when the Parliament voted for ratification of the lending agreements for the pipeline, Deputy Economy Minister Vitalie Iurcu was speaking to the press that the authorities were considering to attract a private investor in the project. He confirmed that the Romanian side was interested in such an opportunity.

"The purpose of this specific privatization round is to relieve the government from the need to take new borrowings or to assume this investment commitment, but put the money elsewhere. Consequently, the obligation to construct this pipeline will be transmitted to a private partner who will carry out the project exactly as it was designed at the beginning," Călin Negură, head of the energy policy department at the Ministry of Economy and Infrastructure, told Mold-Street.com.

If the privatization plan proves successful, the agreements with the EBRD and the EIB shall be cancelled in stead of being ratified. As Mr. Negură said, the government will discuss with the two European banks the possibility to explore other investment opportunities, for example the energy efficiency projects.

Is IMF to blame ?

The Moldovan authorities also cite the Memorandum with the International Monetary Fund (IMF) as a justification in stepping back from the agreements with the EBRD and the EIB. The Memorandum provides for an effort on behalf of the government to lower budgetary deficit in 2017 than planned (3.7% of GDP, or some 5.5 billion lei).

The energy official sees no risk to the gas pipeline project's implementation; on the contrary, he believes the move will accelerate the construction of the pipeline by the end of 2018, which is even earlier than planned. According to Călin Negură, in parallel with the privatization process the authorities continued other activities related to the implementation of the project such as getting the technical documentation and the tender documentation done. "If a private - and credible - partner appears to come forward and earns the trust for this investment project, and gets to sign the purchase accord with us, that partner will take over all of the obligations from that moment," the functionary stated.

Who is the potential buyer?

The lately events in the energy sector of Moldova let us easily draw a fair conclusion that the entire privatization process is being prepared for the Romanian gas transportation operator Transgaz, which is controlled by the Economy Ministry in Bucharest (58% of share). Official statements both in Romania and in Moldova suggest that such Romanian energy giants like Electrica, Transgaz, Hidroelectrica, Romgaz and others are willing to buy stakes in the Moldovan energy system. Transgaz however has been involved in the drafting of the technical design for the Ungheni-Chișinău pipeline and for two years has been considering to open an office in the Moldovan capital. The company has made no comments so far about Moldova's privatization notice or its own plans, though the deadline for submission of bids runs off on 15 December 2017. Mr. Negură confirmed that the Moldovan authorities counted on Transgaz as the partner they were looking for in this project and admitted that other operators might compete directly or via affiliates, Gazprom for example. On the other side, an independent energy expert ruled out a competition scenario, given that the privatization of Vestmoldtransgaz also covers a commitment to invest 93 million euros within two years after the takeover. A major impediment for Gazprom is the requirement to prove its experience in the management of gas transportation networks under the rules of the European Network for Transmission System Operators for Gas (ENTSOG).

Accotding to Victor Parlicov, a former head of the Moldovan energy regulatory agency ANRE, lots of questions linger over the issue. “Why would the government make so many promises and engage in so many negotiations with the EU and the two European banks to get the funding for this strategic project, but then abandon the process hastily in favor of a private investor?” Mr. Parlicov wonders. “While the [Moldovan] authorities have not been generous in explanations, in fact the privatization stage is likely to delay the implementation process. For example, the technical study was expected in August but wasn’t ready even in October,” the expert found.

Government hopes to achieve a faster progress

The authorities hope that the plan with the privatization will speed up the project. Both Moldovan and Romanian officials are optimistic about the completion of this project and even predict an exact date: end of 2018. “The private partner will be able to divide the project into smaller construction sites so that the work is done in parallel on a number of portions. This way the project may complete sooner and the pipeline would become operational already in early 2019,” explains Călin Negură.

The investor will be obliged anyway to organize transparent tenders and to comply in full with ANRE’s requirements and legal provisions. Readers should bear in mind that the Moldovan Ministry of Economy and Infrastructure issued in September 2017 the urbanism certificate to Vestmoldtransgaz for the pipeline designs.

Beyond the economic aspects, some geopolitical concerns linger. “First of all, says Victor Parlicov, mind that Moldova’s agreement with Gazprom runs off in 2019 and the government must accelerate the implementation of this project, otherwise it will have to negotiate a new agreement with the Russians, under new conditions.” Secondly, he continued, Moscow might complete the construction of TurkStream, a pipeline connecting Russia with Turkey via the Black Sea, in avoidance of Moldovan territory and Chisinau will have less capability of negotiations. “One day Moldovans could wake up to see exaggerate prices for methane,” Mr. Parlicov said.

One more reason to go on with the project is the existence of a pipeline between the Romanian city of Iaşi and the Moldovan city of Ungheni, which is used currently at 0.2% of its capacity but cost 26 million euros to build. ©

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Candu’s Bomb under the Memorandum with the IMF

A draft bill to the Law on Central Single Depository for Securities which Parliament Speaker Andrian Candu and his Democratic party fellow Sergiu Sârbu has tabled before their colleagues may breach – if adopted – the commitments which the Government in Chişinău has assumed in the Memorandum with the International Monetary Fund (IMF). The cabinet meeting in early November started as a quite peaceful sitting, until the debate whether to approve or reject a positive notice to the draft bill that should update Article 46 from the Law on Central Single Depository for Securities (#234 from October 3, 2016).

Negotiations decided: 70-80 million lei payable from the public budget

The document was tabled by Finance Minister Octavian Armaşu, whose office added a few edits. If adopted into law, the proposal contains an essential change. Valeriu Chiţan, chairman of the National Securities Market Commission (CNPF), publicly disagreed with the notice's conclusions during the cabinet meeting. He said: "The Law # 234 concerning the Depository was born in hardship and is being enforced with difficulties. The core of discord is the source of funding for the verification of the registers of securities holders. The total cost was estimated at 70-80 million lei and is covered – in compliance with the given law – from the state budget. It is natural then for a government that commits itself with such action to assume the costs. It was negotiated like this [with the International Monetary Fund] and we got stuck today, trying to broker solutions – which may not be most suitable."

In fact, Mr. Chiţan challenged Parliament Speaker Andrian Candu and his Democrat fellow Serghei Sârbu. Both propose to search for a new way to cover the costs of verification of the securities holders, which would bring more transparency in the bank ownerships, even though such a way would breach the memorandum with the IMF. The two lawmakers want those expenses to get covered by CNPF and then to be compensated by the operators proportionally to the number of shareholders and according to their budgets and expenses per shareholder as established by the Commission.

Filip: Let banks pay, they have cash!

Mr. Chiţan mentioned the fact that the Government recently amended the 2017 budget and disposed the allocation of 6.2 million lei for the first verification of banks and insurance companies. "However, we can see attempts to change the rules in the process," he said. "The Finance Ministry is trying to change the rules of the game while on the walk. If the bonds issuers are obliged to cover those expenses, it's out of question that we'll get into trouble with the IMF and the agreements with the Fund will collapse. The Commission is not able to continue the process without a guaranteed financial line," the head of the watchdog agency stated.

In the relationship with the IMF, the Moldovan Government promised to check up "the registers about the legal owners concerning all of the banks and insurers," he added by citing the prime minister's letter of intent.

But Premier Pavel Filip replied that the IMF or the conditions to be fulfilled in return for its assistance "had nothing to do with the issue." - "I think it's a kind of naughtiness to ask the state to pay for the banks' shareholders. You are probably unaware that the banks earned altogether a profit of 1.5 billion lei in the three quarters of this year. Let me get straight, are you suggesting that after all that has happened [2014 bank fraud] we still have to take out money from the public pocket and spend it for the review of bank and insurer shareholders?" the cabinet chief asked.

Solutions and dissolutions

The premier also urged the executive members to search for a solution. "Those who earn billions should pay for this review; the government will take care for the rest. Once this question is answered we'll go ahead with the enforcement of this law and maintain a fair approach," Mr. Filip concluded.

The finance minister supported his boss by reminding that the first stage of the review and registration mechanism concerns the banks and companies within the public interest range, which "have money and therefore it's not worth to lay the burden onto shareholders' backs." - "Once we gain the necessary experience upon completion of the first stage, we'll be able to see how things work and we'll know what to do during the second stage. We've already raised this issue at the IMF," said Octavian Armaşu.

And yet CNPF chairman Valeriu Chiţan remained unconvinced. He cited the lack of a legal basis for such a decision. "Yes, that's right – the banks have the money. But you, the government, don't have a legal basis to let us take that money [from the banks]. There's another way to have the banks pay, a more legitimate one." said Mr. Chiţan, himself a former finance minister. In his opinion, the attempt to modify a law before it starts working looks like a dissolution rather than a solution and won't help anyway improve the relationships with the Fund.

The same day this topic was discussed in the parliamentary Commission for Economy, Budget and Finance, in the absence of the bill proposers or representatives of the National Bank of Moldova (BNM), which oversees the banking sector and controls 76% of shares in the Central Single Depository. The debates led nowhere and the CNPF was recommended to open a separate account and start the verification process. The idea is bad because the largest part of activities will be carried out by entities and individuals outside the Commission, which in turn will have to hire all these and will need resources to remunerate their services.

The two lawmakers who proposed the bill, Andrian Candu and Serghei Sârbu, too, recommend the CNPF to start the verification immediately and later to go look for the money. Interestingly, the Moldova-IMF memorandum foresees that by the end of May 2017, CNPF – with BNM backing – drafted an exhaustive methodology and the procedures for verification of shareholders with legal powers. They were also due to campaign for popular support and this represented a structural performance criterion.

The Commission however passed the required document in late August 2017, after consultations with the central bank, Finance Ministry, the IMF, and certain banks. It says among others that CNPF will justify the spending framework regarding the ownership checking procedure to the Finance Ministry.

This process is expected to bring more transparency in the ownership of banks and other important joint stock companies in key sectors of Moldova's economy. There are fears though that the concentration of the information about shareholders in a single entity [Depository] would harm the companies that keep the shareholder registers. Many such companies disagree to finance something that would harm their interests or business.

It would be for the first time when Moldova verifies the registers of shareholders and no one has any experience about how to organize this complex process. CNPF, which oversees the non-banking financial sector, has proposed to limit the enforcement of the legislation in this area to bank and insurers and – based on the experienced gained – to proceed to next steps by updating the law if necessary. ©

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A Frightening Statistics from the Ministry of Justice

The Moldovan Ministry of Justice has proposed a bill to relax the checkup raids from law-enforcement agencies on businesses. Minister Vladimir Cebotari announced that more than 30 articles in the Criminal Code would be amended and certain violations would be decriminalized. "The initiative is designed to reduce the pressure on the business community from law-enforcing institutions during the investigation of actions that fall under the Criminal Code or the Contravention Code," Mr. Cebotari said at a news briefing.

Only 5% of business people under criminal charges sued in a court of law

If the bill becomes a law, the police and fiscal authorities would be banned from seizing documents, hard disks or assets that are used in the business process - anything that is vital to keep a business running. A mechanism of financial guarantees would be instituted for the assets and belongings under sequester. No person suspected for offenses liable to imprisonment for more than five years would be arrested or kept in pre-trial detention. Companies that are officially acknowledged to be in contradiction with a legal provision would be given a chance to comply with that provision upon a deadline, under the proposed bill.

"We want to transfer the competence for investigation of criminal offenses from the Ministry of Interior Affairs and the National Anticorruption Center - both of which are allowed to carry out checkups - to agencies in charge with the investigation of milder offenses while maintaining the prosecution offices as the sole authorities for investigation of facts of criminal nature. We also want to re-write the contravention procedures into a simple and debureaucratized set of rules that would let the government take fast action and the suspect contest the accusations in a court of law," the minister further stated.

But speaking in a broadcast at the public station Moldova TV earlier this announcement, Justice Minister Vladimir Cebotari mentioned what he called "frightening figures": only 5% of the reports filed by the authorities on offender businesses had reached a court of law; the remaining 95% were never examined, mainly because of the incompetence of the officers who handled the cases.

Voluntary reparations

The bill would also exempt the culprit from criminal responsibility if the suspect volunteers to pay all the reparations for damages and transfers to the government the economic advantages and material benefits gained as a result of illicit entrepreneurial activities that did not pose any risks to the physical and psychological integrity of other persons. The Ministry of Justice believes that the Criminal Code in effect in Moldova is too severe - and in some parts even repressive - compared with the European Union legislation and that further use of its current version would harm the national interests in the long-term.

However, the exemption for criminal responsibility would not be awarded for granted and certain conditions would apply. The first condition is that a business person applying for clemency proves no encounter with the judiciary system and has a clean criminal record. The "first time" encounter means that no previous conviction exists on his or her name and no official police reports had been filed. Another condition is the voluntary payment of reparations for damages inflicted by the applicant. Such a gesture is expected to demonstrate his or her remorse and decent pro-social conduct. A third condition is the restitution of the illegally-obtained benefits such as goods or properties as a result of used advantages.

"Decriminalization" of economic offenses?

While some economists say the initiative was designed to decriminalize a number of economic offenses, a known lawyer claims it was not. Constantin Tănase told the Free Europe Radio station in Chisinau that the initiative concerned a category of offenders who commit most commonly economic wrongdoing. "It's wrong to call it decriminalization. Nobody intends to cancel the Penal Code. On the other hand, the government gives cooperative offenders to recover all damages in full in return for clemency," he said.

Mr. Tănase believes that Moldova currently maintains "one of the most repressive regimes for punishment of economic offenders… which has led to nothing good." He further stated, "Our national system is very repressive in every chapter [of the Penal Code], the authorities issue arrest warrants in a careless way, irrespective whether there are reasons or not, and there is also a problem with the conviction enforcement. Let alone the conditions of detention; a suspect may not be released on parole, or on bail, if he had not recovered the damage. Moldova is unique in this regard: we value the freedom not for the sake of integration within the society but for the sake of material reparations."

Role of the Information and Security Service

The initiative also provides for a revision of the role of the domestic security service SIS: it could be told to focus on threats to the independence, sovereignty, unity, territorial integrity, constitutional order, democratic development, internal security of the state, safety of citizens, statehood protection, and functionality of the key branches of economy. ©

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Dodon's Initiatives Likely to Break a Hole of Billions Lei in Public Budget

The government has recently given a negative assessment to President Igor Dodon's initiatives, claiming that the bill would discriminate various groups of taxpayers and would break a hole of billions of lei in the public budget. At the time of launching his initiative, President Dodon said in mid-September: "For the purpose of enhancing the social protection of our citizens and giving a boos to the economic development of our country, I have prepared a set of initiatives of social-economic nature […] The package has been elaborated with the contribution of the Presidential Economic Board and with consultancy from the business environment."

A competition between Cabinet, Parliament, and President

Cabinet seniors and civil society leaders described the new initiatives of Mr. Dodon as populist proposals that are part of the competition between the Cabinet, the Parliament, and the President in demonstrating their concern for ordinary citizens and for business." Prime Minister Pavel Filip, too, earlier expressed his disappointment over the slow pace of reforms and blamed the head of state for failing to sign a number of bills into law. Mold-Street has reviewed a number of Dodon's initiatives. Below is the reaction of the government branches to the presidential proposals.

Tax Zero for reinvested revenue – minus 1.6 billion lei in the budget

The Finance Ministry advised the cabinet to turn down the initiatives, citing „a growing budgetary deficit as a result of their implementation and insufficient compensating incomes to cover the losses." Pointing to the proposal to introduce the so-called Tax Zero on reinvested revenues in the case of businesses (legal entities), it reminded that Moldova maintained the lowest revenue tax (12%) after Bulgaria (10%), compared to other countries in the region: Romania (16%), Ukraine (18%), Russia (20%), Slovenia (19%).

Tax Zero is a fiscal facility, which are introduced periodically to stimulate a certain branch or industry for a limited time, while Mr. Dodon's proposal covers all businesses, irrespective of their welfare and field of activity, the Finance Ministry explained. The worst though, it added, is the fact that the measure would inflict approximately 1.6 billion lei in losses in the public budget.

Discriminating the banks and stimulating shadow economy

With reference to a proposal to introduce a 36% duty for the earnings obtained by the banks from the currency exchange difference, the Finance Ministry described it as "discriminating and limiting." - „It could produce an unforeseeable effect in the financial-banking sector, for the reason that it restricts banks in currency exchange services to the joy of exchange offices. The mechanism of formation of the price of a foreign currency is based on the free fluctuation between the demand and the supply. The proposed duty would distort the currency market and would paralyze the domestic institutions in terms of absorption and injection of foreign currencies. The measure could also play well for the shadow economy in exchange operations while diminishing the taxable basis and exerting additional pressure on public finances," the Government said in a note to the president's proposal.

The profits from exchange rates are generated by the daily re-evaluation of foreign currencies on banks' and clients' accounts, as well as by the sales of foreign cash at banks and exchange offices. A 36% duty on earnings from exchange transactions would force the banks to increase the rates in order to keep the planned revenue.

Taxation of earnings from state bonds

Another proposal is to raise duties from state bonds, also called securities, which were never under taxation in Moldova. The most likely outcome of such a measure would be the increase of the interest rate for this financial instrument, exactly in the same amount as the duty. As a consequence, the public spending for the internal debt service would increase as well. The government's internal debt has increased almost three fold in the past two years and is currently around 22 billion lei.

The interest rates for state bonds are benchmarks for various central public authorities and other entities in taking a decision about asking for a loan, depositing the available resources in a bank, or issuing new bonds.

Larger personal tax exemption

In response to Mr. Dodon's proposal to increase the personal tax exemption amount up to the size of the annual minimum subsistence sum, the Government said the measure could harm its capacity in taking decisions about the financing of certain social, health or cultural programs.

The present-day model of personal tax exemption based on the annual inflation gives the authorities a kind of predictability without creating economic turbulences, it explained. "In the case we increase the personal tax exemption from 10,620 lei a year now, up to the annual minimum subsistence sum that is calculated for the precedent year, the public revenue inflow would reduce by approximately 700 million lei. The Government is currently weighting a number of scenarios – and this one is among them – and seeking a modality to cover the above-mentioned losses," the note reads.

Standard VAT for vegetal and animal produce

President Igor Dodon also proposed to apply the standard VAT for vegetal and animal produce deliveries, with the full restitution of payments within five days. The Finance Ministry though believes that such a mechanism would be "an instrument for indirect state-sponsored subvention of agriculture." In this context, all sectorial needs have to be examined as part of the Agriculture Subvention Fund and other public financing programs.

"…the mechanism of VAT restitution implies a fiscal control that depends on the risks in the sector while the five-day term for restitution isn't really applicable through the fiscal administration establishment. Also, the procedure [of restitution] contains unclear wording and this fact may encourage a different treatment for different entities, given that the proposed document does not state what the payments are made off and how they are paid back," the note reads.

Then, taking into consideration the fact that the fiscal period for VAT is the ordinary calendar month, the restitution may take place only after the submission of a formal request for VAT restitution for the periods that need to be specified. Therefore, it is necessary to indicate when the restitution period is expected to begin.

As for the proposal to reduce the VAT for natural gases and liquefied gases, from 8% down to 5%, such a measure would increase the burden on the national budget and the losses would soar to approximately 162 million lei. Balancing the spending for development of social programs requires other methods than fiscal measures.

Duty on depositors' cash in banks

Another proposal from the head of state of fiscal nature is to levy a duty from the bank deposits of individual clients. The move would apply to deposits smaller than 10,000 lei and thus would be discriminatory, the Finance Ministry argued. It's not clear if the measure would apply to the cash deposited before the proposed date of enforcement – 1 January 2018. At present the deposits of individual clients in banks are not subjected to taxation – the provision is due to stay in effect until 2020.

"We believe that this provision should be analyzed from the perspective of fair treatment, given that the proposal would take away a benefit for a category of persons […] There is also a risk to get something different from what is expected, making it possible to disperse the beneficiaries (between family members, for example)," the Finance Ministry explained.

The change would also affect the capital market and especially the bank sector, because it would cut down investments in financial instruments and would trigger a premature withdrawal of deposits from banks. The Finance Ministry also pointed out that the president's proposal on taxation of deposits would reduce the credibility of the state and then could increase the expenses for reparations for depositors who felt harmed by the change. ©

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How the Government and ANRE Cheated the IMF and the Energy Community

The mission from the International Monetary Fund has departed home and the Moldovan government has breathed relieved full chest – it succeeded to avoid the worst scenario that would freeze the IMF's assistance program for the ex-Soviet state. Those who cheer this success say it didn't matter how the Fund had been persuaded. But other international institutions and companies point to serious problems in many sectors and to the fact that the reforms have been mimicked.

This is the case of the energy sector in principal and concerns such issues as renewable resources, energy efficiency, climate change, natural gases. The European Energy Community has stated that in spite of minor progress in the way of compliance to the EU energy acquis, Moldova has been struggling with major challenges as regards the adjustment and upgrading of its laws.

Moldova failing to comply with the EU Directives

Take for example October 27, 2017, when the Energy Community Secretariat issued a note that notified the Government in Chisinau about a case coded ECS-14/16 against Moldova. In its assessment, the Secretariat found that Moldova had not transposed into life or improperly transposed the relevant provisions of its Directive 2010/31/CE regarding the energy efficiency in buildings.

“The purpose of this initial step in the procedure is to give Moldova the possibility to react to the allegation of non-compliance with Energy Community law, and enabling the Secretariat to establish the full factual and legal background of the case. According to Articles 7 and 17 of the Rules of Procedure for Dispute Settlement, interested parties may be granted access to the case file and may submit written observations on the present case to the Secretariat during the preliminary procedure,” it said in a press release. Similar cases had been filed against Moldova in the past and the authorities were compelled to comply with their obligations.

Minor progress, major problems

The note reveals just a small portion of problems in the energy sector. A report which the Energy Community has released outlines the real progress which the country achieved in the process of integration within the European energy market. Moldova ranks the last but one place among eight countries in the region that are moving towards the energy integration with the European Union.

The adoption of the Electricity Law in May 2016 is viewed as a positive step; it transposes the EU’s Third Energy Package and serves as a scene-setter for adoption of a new implementation legislation and new regulations in the sector.

A new litigation with Gas Natural Fenosa

The progress achieved in 2016 is overshadowed though by a new litigation with the largest and solely private power distribution operator, Gas Natural Fenosa, because of the change of the tariff methodology by ANRE, Moldova’s energy regulator, the Secretariat stated.

Readers should bear in mind that ANRE adjusted the tariffs for electricity distribution in March 2017, based on a new tariff calculation methodology it approved in February 2017. Independent experts say that the new methodology harms the operator’s ability to recover the losses in the network, increases the country risk that is used to calculate the investment costs, and shortens the lifespan of assets.

ANRE director Tudor Copaci has admitted that a litigation is being in progress with Gas Natural Fenosa but he denied that the new methodology could be blamed for the operator’s financial problems. "The changes took place in compliance with the new Electricity Law. It obliges us to adjust the regulations in the energy sector to the law within 24 months after its entry into force," the regulator’s head stated. ANRE also referred to Article 96 from the same law, which reads that “The methodology for calculation of prices and tariffs that are regulated at the moment of enactment of the law can be revised by the Agency.”

Cheating the International Monetary Fund

Gas Natural Fenosa (GNF) meanwhile sees no relation between the obligation to implement the Third Energy Package and the modification of the methodology, pointing out that the changes affect specific parameters in the electricity tariff rather than improves the methodology itself.

“The specific tariff parameters that have been changed in an unjustified manner are as follow: the recognized energy losses; the weighted average cost of capital; and the cost for prolongation of asset lifespan. More than that, GNF was obliged to pay a fine of 6.2 million euros for failing to invest the committed minimum in 2015.

“However, in 2015 ANRE failed to adjust on time the tariffs above the recovery level and this fact caused a hole of resources in the power system (a tariff-related deficit of 82 million euros). In this context the distributor acted to reduce the possibility of massive blackouts and preferred to pay off the electricity suppliers. Therefore it was unable to carry out its investment obligations in full,” the Spanish group said in a note for Mold-Street.com.

On the other hand, GNF accused the Parliament and ANRE of acting in a way that harmed GNF mainly, without affecting the other two distribution networks, which are controlled by the state. “In conclusion, the agreement signed with the IMF and its conditions are apparently fulfilled, but in reality the tariff arrears have not been recovered effectively and the Moldovan authorities cheated both GNF and the Energy Community and the IMF,” Gas Natural Fenosa said.

The company has filed a complaint with the Energy Community and asked it to open a case for the violation of the community regulations against Moldova and of the Energy Community Founding Treaty, of the principles of the rule of law, judicial certitude, lack of discretion, and adequate protection of the business climate. GNF said it was considering other options, too, such as the return to the arbitration procedures that had started in August 2015.

Ukraine and Moldova are called to form a common energy market

The Energy Community Secretariat recommends, in its report, that Ukraine and Moldova formed a common electricity market. Such an event would let Moldovan wholesale suppliers to benefit from non-discriminatory access to the more competitive supply pools of Ukraine and would boost interconnections for transborder trade. Also, a decision is necessary about what are the most suitable interconnections with Romania. The next projects need to be planted for the enhancing of Moldova’s energy supply security in the future, for a boost to competition on its internal market, and for the benefit of customers, the Secretariat stated.

Lack of concrete progress in the Gas Law implementation

As concerning the gas issue, Moldova yet has to rectify a Law on Natural Gases – either with new amendments or adoption of a secondary law, if possible. The country has achieved no concrete progress towards the harmonizing of its gas legislation to the Energy Community’s requirements.

The Secretariat said the preparations for separation of the gas transportation system from the gas distribution system should start immediately, in compliance with the Third Energy Package; consequently, the properly separated operators should be selected and certified by January 2020. Moldova needs to proceed to the legal and functional separation of such companies as Vestmoldtransgaz, Moldovatransgaz and Chișinău-Gaz.

Until then, the government has to write and enforce new tariff methodologies for the transit of gases and to allow transparent and non-discriminatory operations in the gas market, with a true opening of this market. ANRE director Tudor Copaci says he sees no reasons for worry. “We still have time and our specialists are working towards the restructuring of the sector and improving the laws,” he said.

The Secretariat though wants new rules for supplier change in order to improve the competitiveness and liquidity of the gas market, pointing that an effective competition between suppliers will begin after the elimination of all exclusive rights for existing operators.

Postponed renewable energy

Things don’t fare better in the field of renewable energy generation. The postponed entry into force of the Law on Promotion of Renewable Source Energy is pushing away the time when the country will be able to comply with the EU norms in this field. The Energy Community report says the Moldovan government has to adopt new rules for the contest of renewable energy projects and to simplify the administrative procedures and methodology for evaluation of the costs for connection to the transportation and distribution networks. A rigid monitoring of these measures by the Economy and Infrastructure Ministry later on will be crucial, it noted.

Importing bio-fuels instead of processing vegetal waste

There's also a problem with the regulatory framework for production of bio-fuels, which lacks clear criteria for sustainability and adequate incentives. The deficit of progress determines the stagnation of the agricultural sector, which has a significant potential for turning vegetal waste into bio-fuels. Moldova aims to achieve a 10% share for bio-fuels by 2020. Instead the country will rely on the importation of bio-fuels, the report says.

During year 2017, Moldova has reported a major progress thanks to adoption of regulations that were necessary for the enforcement of the Energy Efficiency in Buildings Directive and the elaboration of a draft law on energy efficiency for transposing the Directive. One prime target for Moldova should be the full compliance of the Energy Efficiency in Buildings Law with Directive Directiva 2010/31/UE with the development and implementation of a building certification system; that would include the certificate software development. A next step would be the adoption of the Energy Efficiency in Buildings Law, according to the same report.

Moldova and climate changes

Pointing out to the climate changes, the Energy Community Secretariat says that Moldova has followed the steps that were mentioned in the last year report, except for the priorities related to the directives concerning the large burning installations and industrial emissions. Nonetheless its government has to begin without delay the adjustment of the national laws to the relevant clauses of the directives. Otherwise, Moldova is likely to be sanctioned.

The financial and technical capabilities of Moldova are limited; therefore these challenges remain serious impediments in the way of compliance with its commitments under the climate change arrangements. The Secretariat's report says Moldova needs to set up a system for monitoring and reporting on greenhouse emissions and to collect relevant information about climate changes within its territory – "as soon as possible."

The Energy Community was created in October 2005 with the main purpose of expanding the internal energy market of the European Union onto South-Eastern Europe and farther, based on agreements with legally-binding effects. The organization includes the EU member states, Albania, Bosnia, Georgia, Macedonia, Kosovo, Moldova, Montenegro, Serbia, and Ukraine. ©

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Premier Filip Wants to Nationalize a Hotel that Was Part of a Deal Between Plahotniuc and Platon

At a cabinet sitting in mid-November, Prime Minister Pavel Filip unexpectedly remembered that a number of privatized assets have been languished in ruins for dozens of years while some mega-projects exist only on paper. The head of the cabinet pointed out to the privatization of cinema theaters in the district centers of Moldova and particularly to the National Hotel in Chişinău. He also expressed disappointment over the stagnation of two industrial parks in southern Moldova, which had promised to create new jobs.

Only three jobs out of 3,000 promised jobs

"Let me remind you about the cinema theaters in the administrative centers of our districts that lie in decay… I also think of the industrial parks which offered fields and buildings in return for investments… I mean the Cimișlia Industrial Park, which had promised to create 800 jobs but instead created just two jobs. Or the Comrat Industrial Park, which vowed to hire 2,260 people and instead hired just one. There's something wrong here!" the prime minister exclaimed.

Mr. Filip outlined the privatization of the National Hotel at an investment contest. "I've talked more than once about this premises, which we expected many years ago to see a beautiful building. [Instead] we saw children getting high with narcotics and wandering outside the control of their parents and social assistants," the premier told his ministers.

The prime minister also asked the Economy and Infrastructure Minister Octavian Calmîc to review the progress covered by the buyers of the premises in their investment projects. If necessary, he instructed the minister, feel free to terminate the contracts and nationalize the assets whose new owners have failed to comply with their investment commitments.

Without the baron or the European Park in Cimișlia

Mold-street has reviewed several projects – some of them were quite ambitious. Take for example the Cimişlia Industrial Park. It was founded six years ago on the skeleton of the Cimişlia Public Services – a state-run Soviet-style enterprise – which became the administrator of the project and received for this purpose 40.5 hectares of brown fields at the outskirts of the town of Cimişlia.

On 28 August 2013 the prime minister at that time, Iurie Leancă - currently deputy chairman of the Parliament - laid down in person the foundation stone of the Cimişlia Industrial Park, to the delight of a bunch of officials around him. "This first European park in an open field will be a success story. I hope that it will help Moldova become a functional European nation," Mr. Leancă said pathetically.

The enthusiastic Leancă went further by announcing that the park would expand up to 100 hectares in the future and the local public authorities branded the event as a historical day for the Cimişlia District. In accordance with the project, at least 70 million lei was necessary for the construction of the park and the bulk of money was expected to come in from the central government, the local townhall, and the Prahova County Council – a partner institution in Romania. A chopper brought a German investor, Baron Alexander Freiherr von Lüdinghausen, to Cimişlia; he said at the event that he wanted to build a factory for etheric oils in the new park.

Four years later the Cimişlia Industrial Park hosts one single resident: Sunartenergo SRL from Nisporeni District, which planned to manufacture photovoltaic systems. In late 2015 the amount of investments in Cimişlia was close to zero, the Economy and Infrastructure Ministry said in a report.

The largest park, the biggest fiasco

Compared with Cimişlia, the ambitions in Comrat (Gagauzian autonomy in southern Moldova) were even bigger. The industrial park there opened with triumphal speeches from Parliament Speaker Andrian Candu and local officials, in the second half of January 2015. Moldovan Metropolitan Bishop Vladimir Cantarean himself held a religious service for good luck. Promises poured for the media for free.

Democrat Nicolae Dudoglo, a local leader, predicted that the Comrat park would grow to be the largest in Moldova and that investment commitments would pass over 1.8 billion lei. The park is located in the former dwelling maintenance enterprise and covered 50.3 hectares. It was awarded an operations license for 30 years. Three years passed and green grass has only grown in the Comrat Industrial Park, plus a waste of one million lei from public finances.

In 2017 the authorities transformed the Comrat park into a sub-zone of the Valkaneș Free Economic Zone. There are hopes that an investor will build there a plant for automotive parts. "The experience we have gained shows that investors don't walk into industrial parks, where a few roads exist, instead they prefer developed economic areas with a lot of facilities including the VAT exemption, small profit tax, and so on," according to Comrat mayor Serghei Anastasov.

"National Ruin"

Among the plentitude of failures, there's one that deserves a special place in Moldova's privatization history books: the National Hotel complex. This episode was marred by a scandal that astonished foreign investors.
National Hotel until 1992 had been part of the Soviet accommodation infrastructure Inturist, which was designed mainly for foreign visitors. In Moscow, for comparison, a similar network hotel was simply demolished and a new building was raised.

The one in Chişinău was sold into private hands twice. First time an Israeli firm called Avi Awaks won the contest and was expected to pay 1.55 million dollars for the complex, but it did not pay any cent and the government consequently terminated the contract and took back the hotel after a long court battle.

The second contest took place in November 2006 and four bidders queued to get the complex: Alfa-Engineering, Business Global Park, Elite Sport, and Italian company Immobile RE, which operated a hotel network under the Radisson franchise.

Alfa-Engineering, based in a small Moldovan town of Căuşeni, took over more than 83% in the state-run society Moldova-Tur, which controlled the complex. It paid 2.15 million dollars and was committed to invest a further 33 million dollars within the next two years. Guess what? Nothing of the kind: after 11 years of ownership the entire complex is scrambling to become a ruin, too.

Since the investor broke the agreement, the government had to re-nationalize the complex. Businessman Nicolae Curtoglo, a former member in the Moldindconbank managing board and director of Alfa-Engineering, explained eight years ago why the investment plan failed: the authorities delayed the issue of permits for demolition and for the lease or purchase of the adjacent field.

Alfa-Engineering asked several times in a court of law the prolongation of the privatization agreement by two more years and every time the Public Property Agency was obliged to extend the deadline for implementation of the investment plan. Last time the sides met in a court of law in 2011 and since then neither the Public Property Agency, nor the Economy Ministry tried to regain the complex.

The Prosecutor-General's Office, too, challenged Alfa-Engineering's grip on National Hotel, in 2010, but lost the case. The court heard that until that year the company had invested 4.3 million lei in various documentation and design studies and that the government had not transmitted the land around the complex to the buyer. Alfa-Engineering complained that the adjacent land was necessary in order to pursue the investment obligations. All of the courts including the Supreme Court of Justice awarded victory to the investor.

The government repeatedly turned down the investor's claims but the official cadastral registers show that Alfa-Engineering had not received the surrounding area for lease or ownership.

Connections with Vladimir Plahotniuc and Veaceslav Platon

A journalist investigation in 2013 demonstrated that Alfa-Engineering was registered on 7 August 2006 by Estonian company Maldone Invest, which itself was founded in January 2006, with a statutory capital of a mere 3,000 euros. Maldone Invest sold Alfa-Engeneering to a Dutch offshore called Generashon Financial, which in turn was part of OTIV Prime Holding of Moldovan Democratic Party leader Vladimir Plahotniuc. Until 2012, Generashon Financial was officially known as OTIV Prime Financial, which controlled 26.75% of Victoriabank.

The name was changed in order to cheat the public that the new shareholder of Victoriabank had no connection with Plahotniuc's holding, the investigation found. Generashion Financial was a majority shareholder of Victoriabank until November 2013, the time when it sold the entire package of 26.75% by dividing it into smaller portions of less than 5%. The buyers were a Latvian firm, a British firm, five Moldovan firms, and an unnamed individual. All of the shares ultimately ended up in the portfolio of a Cypriot offshore, Insidown Ltd., from which Banca Transilvania is going to buy them.

Alfa-Engeneering, part of a Platon-Plahotniuc deal

Alfa-Engeneering is mentioned by controversial businessman Veaceslav Platon in his complaint filed in August 2016 at the Romanian Department for Combatting Organized Crime (DIICOT). Mr. Platon claimed that in autumn 2011 Plahotniuc had asked 80 million dollars for his shares in Victoriabank and Savings Bank. During the talks Platon also obtained control in insurance companies Asito and Victoria Asigurări, as well as 100% stake in Alfa Engineering, which owned National Hotel. All these assets were taken over by Veaceslav Platon via Generashon Financial. The sides signed the agreement on 2 December 2011 in Amsterdam, Mr. Platon stated in his complaint at DIICOT. On papers, the buyer's name was Yuri Kontievski, a

Moldovan-Bulgarian businessman and a business partner of Veaceslav Platon. At present Alfa-Engeneering is a property of Ismida Alliance Ltd., an offshore involved in the one-billion-dollar fraud in the Moldovan bank system in November 2014.

Filip seeks a quick solution

It's difficult to anticipate the fate of this monument of incompetence and mismanagement of public properties in Moldova. Premier Pavel Filip gave a week-long time to his subordinates to look into all privatization agreements and report which ones were violating the terms. Investors who breached their obligations should be taken away their properties, he warned. His deputy Octavian Calmîc called for "patience": First the authorities should talk to investors and encourage them to comply with the terms of agreement, and leave the legal proceedings as the last option. "It's a difficult process but we hope to see the first results in the middle of next year," Deputy Premier Calmîc stated. ©

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The Hall of Shame. Five Companies Account for One Billion Lei in Debt to Public Budget

A few notes released by the State Fiscal Service reveal that a small number of local companies have accrued huge debts – hundreds of millions of lei – to the public budget. Our experts could find no explanations why this happened. It is not unusual for the tax authority to make public the names of companies or business people, founders or administrators of enterprises who are this way invited to visit a tax officer to learn the findings from their financial books. It is also common to see public notes in the media about companies with tax or duty debts that are given deadlines to pay off the debts.

Debts as large as the national defense spending

„In the debt is not paid off within 10 calendar days since the date of publication of this note, the State Fiscal Service will file for the bankruptcy of the given firm, in compliance with the Insolvency Law," each notes reads in the bottom.

Until not long ago, these notes concerned businesses that had owed thousands of lei up to millions of lei. The latest ones, however, are surprising: the debts account for hundreds of millions. Take for example Molagro-Prim SRL, from Ţambula of Sângerei District (a few hundred residents), which was instructed to pay off more than 530.9 million lei to the public budget, within ten days. This amount is larger than the annual spending for the national defense.

Roman Cravcenco, an entrepreneur from Bălţi, appears as the owner and administrator of Molagro-Prim SRL. It was founder earlier by Anatolie Purcaci. These two names don't tell too much about a company preoccupied with trade with processed food and agri-produce, transportation and intermediation. This company was a registered VAT payer during December 2012 through July 2016, but inexplicably it had not appeared in the list of large tax-payers or any reports issued by the Auditors Court or other public authorities.

Scheme of tax evasion

In July 2017, the name of Molagro-Prim appears near the firms like Florisolagro SRL, Arveal-Agro SRL, Absolut-Agro SRL, AMV 21 SRL, Eurogrîne SRL, and Agrotitan-Nord SRL, in a news report about a joint raid of prosecutors, economic crime investigators, and police at a number of firms and business offices. These were suspected of deceiving practices: they were buying cereal products from individual farmers but were not paying out anyone.

A news portal Deschide.md said the money was laundered through two banks and dozens of ghost companies, bypassing their fiscal obligations and thus "saving" an estimated 8.3 million lei in VAT alone.

Confidential data

But that’s less than 530.9 million lei as published in the note of the State Fiscal Service (SFS). Mold-Street.com asked several officials at the SFS North Division in Bălţi and SFS central office in Chişinău how did they find so large debts, but they refused to share this information or details about the concerned firms, citing “the confidentiality of data.”

One official at the central office said the figures were accurate “beyond any doubt” but did not elaborate on the subject. „What is your business about it? Are you some kind of partners? It is a duty of the State Fiscal Service in the North Division to publish such notes and if you see them in the official gazette, then the information is genuine!” the female specialist from Bălţi shouted. After days of insisting calls, a specialist at the SFS central office’s department for fiscal records said that the note contained “an error” and the true figure is 54 million lei in the case of Molagro-Prim. “Please cut away one zero and you’ll get the right figure,” he said.

This is anyway a large debt by Moldovan standards. Molagro-Prim has been in a legal suit with the SFS office in Sângerei town, where its business residence is. As for the other figures in the same note – hundreds of millions of lei in tax debts – they are correct, SFS officials confirmed.

Given this fact, the largest debtor is Vivax-Construct SRL, a firm registered in an apartment at Botanical Garden Street in the capital, along with several dozens of other firms. It owes 430.3 million lei to the SFS and the payment is due within days. This figure is larger than the annual turnover of the Moldovan Post Office, a state-run enterprise with several thousand employees.

Vivax-Construct’s manager and owner is Nicolae Pandelia; it was registered in the village of Maximovca, Anenii Noi, District, in May 2014. Vivax-Construct was registered as a VAT payer between April 27, 2012 and November 26, 2015. It operated a storehouse for construction materials at 8, Calea Basarabiei street in Chişinău. SFS officials undertook a fiscal verification at this company in early 2017 but never published the findings.

A long distance behind is IBSC SRL, a Chişinău-based firm that owes 188.7 million lei in taxes. Its business card says the firm deals with construction, utility engineering and trade of electronics. Dring 2012-2017 it used to VAT codes, both of which have been cancelled at present.

IBSC’s owner and administrator is Alexandr Homutov. His name appears in two more companies - Digital Trade SRL and Harita Lux SRL. With 181.8 million lei in tax debts a firm from Bălţi follows: Grain-Group SRL. Its owner and administrator is Viorel Dolinschi. His name surfaced in a 2015 court sentence for the illegal crossing of the national border. The company was registed in Drochia town and later moved its legal residence to Bălţi. It was a VAT payer in April 1, 2014 till July 9, 2015. It deals with trade with agricultural products and construction.

Another debtor, Diagroup SRL in Bălţi owes 144.5 million lei. It is run and owned by Ion Covaş, from Logăneşti, Hânceşti District. SFS officers checked up the financial books of this company, too, saying they found major irregularities there, but never released any findings into the public space. Diagroup used two VAT codes in 2005-2015, both being cancelled now. Given the fact that none of these firms own anything valuable such as properties or equipment, the chances to have them paid the debts off are insignificant.

Former SFS head can’t believe this could happen

Nicolae Platon, a former head of the State Fiscal Service in 2009-2012, told Mold-Street.com that he was surprised to see these figures and even perplexed to learn that just a handful of firms owed so much to the public budget. "I can’t believe this is happening. As far as I remember, the tax inspectors were very strict and tough about tax arrears [unpaid taxes]. Isn’t it a mistake?” Mr. Platon asked. Never like this had happened during his chiefdom at the SFS, when all the arrears to the state debts amounted to around one billion lei during five years.

The latest SFS report in September 2017 showed that the arrears from the basic tax payments to the public budget soared to 1.25 billion lei during the nine months of the fiscal year 2017. On the other hand, the SFS and other public authorities continued the same year to issue press releases with "outstanding results" in the fight against tax evasion and growing public revenues. ©

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Moldovan Foreign Debt: Plus One Billion Dollars in Three Years

The Moldovan Government expects the external borrowing to continue within the next three years and by the end of 2020 the country's foreign debt could exceed 2.6 billion dollars. That would be one billion dollars more than in September 2017. The draft state budget for 2018, which was pre-approved by the ruling Democratic Party and hastily approved by the Government on December 31, 2017, the state debt would soar to maximum 57.36 billion lei (3.1 billion dollars), of which 58% would be the external debt and 42% the internal debt. The total amount would be 6.58 billion lei larger compared to one year ago and the increase is expected from the external obligations.

As a consequence, te share of the state debt in the national GDP at the end of 2017 will account for 38.6% or 0.9 percentage points more than in late 2016.

In 2018-2020 the state debt will grow by 19 billion

In just one year – by the end of December 2018, according to estimates from the Finance Ministry – the state debt balance will soar to 61.74 billion lei, of which 61.3% will be the external debt and 38.7% the internal debt. The figures will reflect a 4.37-billion-leu compared to the ceiling agreed for the end of 2017.
The state debt share in the national GDP at the end of 2018 will account for 38.6%, which is the same level as foreseen for the end of 2017. For 2019 though that share will increase by 11.1% and in 2020 it will increase by another 11.6%, amounting thus to 76.48 billion lei. Or 40.2% of GDP.

Foreign debt will increase one billion dollars

In the course of 2018 the Government intends to spend 7.71 billion lei from borrowings (equivalent of some 430 million dollars) but it also plans to repay 2.31 million lei to lenders (equivalent of 130 million dollars). As a consequence, the external state debt balance (or foreign debt balance) will be 37.87 billion lei (2 billion dollars), which is a growth of 4.57 billion lei (+13.7%) compared to the agreed ceiling for the government's foreign debt for the end of 2017. The increasing gap between money entry and reimbursements is due to excessive lending.

Compared to GDP, the state foreign debt balance is foreseen to grow by 1.3 percentage points at the end of 2018, compared to the end of 2017, and will account to 23.7%. in the next two years that balance will increase from 44.49 billion lei (2.43 billion dollars) at the end of 2019 up to 49.33 billion lei (2.62 billion dollars) at the end of 2020.

Internal debt will keep growing, too

The Moldovan authorities intend not to issue state bonds on the primary capital market in 2018 but redeem maturing bonds worth 210 million lei. On the last day of 2019, according to official estimates, the balance of the state internal debt will be under 23.86 billion lei; this amount includes:

- state bonds issued in the primary market: 8.71 billion lei (36.5%)
- converted bonds: 2.06 billion lei (8.7%)
- bonds for repayment of state-guaranteed derivate securities: 13.08 million lei (54.8%).

In 2019 and 2020, the government expects to earn 440 million lei and 3.32 billion lei, respectively, from the issue and placement of state bonds in the primary securities market. The same years it will have to redeem state bonds worth 230 million lei and 240 million lei, respectively. Given this scenario, the balance of the state internal debt will increase from 24.07 billion lei in late 2019 up to 27.15 billion lei in late 2020.

Performance of Filip's Cabinet

Finance Ministry reports suggest that since the cabinet of Pavel Filip took office in January 2016 till September 2017, the state internal debt increased three times, especially as a result of conversion into state debts of 13.4 billion lei it spent to rescue three banks involved in the 2014 financial fraud. The state external debt increased more than 25% during the same period. For comparison with the period of the Iurie Leanca government's rule, the foreign debt increased just 1% and compared with the 3.5-year period of the Vladimir Filat government's rule, the foreign debt increased by a third. If Moldova had received all the loans it expected in 2017 – around half a billion dollars – the foreign debt would have been even larger.

Mind that it was the Leanca government to approve the conversion of guarantees into a state debt and that the international assistance for Moldova was halted in summer 2015, and the Filip government now "harvests" the outcome of those two decisions. The cost of the foreign debt service is more than three-fold lower than the cost of the internal debt service, the same Finance Ministry announced. It will increase over the next years though. These figures and estimates denote that the Moldovan authorities continue to rely on international assistance as a crucial factor for the nation's development. ©

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How Competition Council Kills Competition in the Sugar Market

The sugar market in Moldova is a genuine scene of silent war between various competitors. The effect of this war is eroding the economy and resulted in the survival of only two companies that operate three sugar plants instead of 11 in other times. A decision which the Competition Council issued recently shows in an eloquent way what is going on in the sugar market of Moldova and how the competition watchdog uses its powers to harm the industry even more.

Can a company name serve as a pretext to push competitors out of business?

On July 14, 2017, the Competition Council announced that the Edinet District branch of the Moldovan State Registration Chamber (CIS) had breached the Competition Law [adopted in July 2012] by registering a new company under the name Moldova Zahar SRL in January 2011. Moldova Zahar SRL is a subsidiary of the Polish investor Krajowa Spolka Cukrowa SA and operates a sugar plant in Cupcini, northern Moldova.

The competition authority deliberated the issue based on a complained from Sudzucker Moldova SA, the largest sugar producer in Moldova and part of the German group Sudzucker. Sudzucker Moldova SA claimed that Moldova Zahar SRL had benefited from a privilege to have that name, which helped the latter compete unfairly. In support to its complaint Sudzucker-Moldova SA pointed out to Germany's experience – the government refused registration to companies that asked to use "Deutch" (German) in their names. It provided a list of more than 1,600 names which the German authorities rejected as "incompatible with the generally-accepted principles."

Sudzucker-Moldova SA also defended its stance with the following argument: CIS registered 385 companies that contain "Moldova" in their names but only seven of them use this word as a brand or product name - Moldova Telecom SRL, Moldova-Leasing SRL, Moldova-Port SRL, Moldova Combustibil SRL, Moldova -Tur SA, Internet-Moldova SRL, and Moldova Zahăr SRL.

Sudzucker-Moldova SA also submitted the findings of a study demonstrating that "respondents associated the name Moldova-Zahar with the domestically-produced sugar": 83% of respondents believed that the sugar which Moldova-Zahar SRL sells was made in Moldova. "This is wrong – according to Sudzucker-Moldova SA – because Moldova-Zahar SRL imports a large volume of sugar." It didn't say how much though.

With these arguments, the Competition Council decided that it could make the Competition Law work retroactively and oblige CIS to withdraw the registration act – although CIS in turn warned that the decision was unenforceable because of its retroactive nature.

The biggest sugar importer? - Südzucker-Moldova

CIS also argued that it could not pressure any company registered as a limited liability into changing its name, unless the founder of that company decide to do so. The decision to register a company can be contested in a court of law only, it further said. On the other hand, Moldova-Zahar SRL cautioned that cancellation of a business registration certificate means “the enforcement of discriminatory measures that could result in the withdrawal of foreign investment and missed revenues.

Moldova-Zahar SRL also said in self-defense that it has sold only domestically-made sugar under the brands “Moldova-Zahar” and “Mos Zaharia”, therefore Südzucker Moldova SA misled consumers and the Competition Council by claiming the contrary. According to Moldova-Zahar SRL, its rival used unverified information from a news website. Südzucker Moldova SA itself is the largest importer of sugar, it added. Moldova-Zahar SRL asked the Competition Council to revise its decision.

Competition Council seeks shutdown for Moldova-Zahar SRL

Wojciech Kolignan, general director of Moldova-Zahar SRL, says that the conclusion issued by the Competition Council was biased and unfounded. He accused the authority of “acting in the interests of a competitor, Südzucker Moldova SA, and thus violated Article 12 of the Competition Law by offering monopoly to a company that itself uses the word ‘Moldova’ in its name.”

Mr. Kolignan, a Polish manager in Moldova, said: “We would like to capture your attention on the fact that the name of our competitor contains the word ‘Moldova’, too. From the Competition Council’s decision I gt the conclusion that Südzucker Moldova SA alone is entitled to use the country name while other companies are denied that.”

Moldova-Zahar SRL has asked a court of law to judge the decision of the Competition Council. If the decision remains in effect, its enforcement will push Moldova-Zahar SRL to shut down: withdrawal of the registration certificates means that the company dissolves as a business entity.

A mega authority of the state has intervened in this situation. The Public Services Agency, which now incorporates the State Registration Chamber, has asked the Chisinau Court of Appeal to do away with the decision of the Competition Council. It cited “the imminence of an irreversible damage” [for the business community and economy as a whole]. The Chisinau Court of Appeal in turn suspended the decision of the Competition Council on October 5, 2017. It was unclear whether this decision will be ever withdrawn.

„Play by the rules, not with the rules”

The conflict between the two competitors in the sugar market requires that we reproduce a message from the former head of the European Union Delegation to Moldova, Pirkka Tapiola, for the Competition Council, in March 2017, when the authority marked its tenth anniversary.

„It is important that you continue developing your institutional buildup, and contribute to effective collaboration with other national institutions, especially in such areas as public investments, finance, energy, and anti-corruption. These are the sectors that need more transparency and you can step in as an independent regulator. It is important that you work together and identify solutions to play by the rules, not with the rules,” Mr. Tapiola was quoted as saying. ©

An Extreme Solution to Rescue State-Run Air Moldova. Why Banks Won't Lend

Air Moldova, a creepy state-run flights operator, has been awarded 75 million lei in aid from the government, via the Chisinau International Airport, another ailing enterprise controlled by the state. The aid is critical for Air Moldova, which could ground its planes without this money. The aid package was approved recently by the Competition Council. The purpose of the spending: "Rescue Air Moldova", the decision reads.

Air Moldova out of cash; not even for maintenance of its fleet

Company reports show that Air Moldova has run out of cash and it not able even to cover the costs of aircraft maintenance, which in consequence results with flight delays and unplanned expenses. It did ask for loans from commercial banks. The Competition Council in its decision revealed that three large banks - Victoriabank, Moldova-Agroindbank, and Mobiasbancă - refused to help "due to the ineligibility of Air Moldova for lending under the conditions established by the central bank" - lack of resources for reimbursement.

In a request for aid, Air Moldova management argued that as a state-owned enterprise it was entitled to seek credits from the internal market exclusively, which are more expensive than international lending programs. In the end, the company asked a commission-free loan of 75 million lei from the Chisinau International Airport, which is Air Moldova's home base, for its working capital.

Over 100 million in losses in eight months

Air Moldova financial reports show that in just eight months of 2017 the company lost more than half of its statutory capital. The net losses amounted to 111.5 million lei and the size of the statutory capital was in minus 2.9 million lei. The Competition Council also found that the overall debt burden of Moldova's largest air services operator had been on a permanent increase during the period 2013 - August 2017: from 604.6 million up to 1.12 billion lei. Its global indebtedness coefficient passed over the acceptable 0.66 points and at the end of August 2017 it was 1.00. The general solvency rate, too, was under the permitted level: 99%.

There has been no explanation from Air Moldova management as to how did the largest Moldovan air carrier waste its finances instead of generate revenues. What it did announce was the plan to include the loan and the reimbursement costs in the business plan (flight tickets). The deal was authorized by the Public Property Agency - which is the official founder of the Chisinau International Airport - at the request of the Ministry of Economy and Infrastructure.

What if Air Moldova remains on the ground?

In defense for Air Moldova's request for aid, the Competition Council said the existence of the company was important for its obligations to carry some 400,000 passengers during the cold season - and especially the winter holidays - from and towards various destinations in the European Union and the Commonwealth of Independent States.

"The market share of Air Moldova demonstrates a heavy dependence of the air transportation services in Moldova on this enterprise. The next [major carrier], Wizz Air has a market share of 10% but it operates mainly routes to peripheral airports and can't substitute adequately [Air Moldova]," said the authority whose job is to oversee that competition is fair. It further argued that no existing competitors would be able to replace Air Moldova, should the latter shut down, and the domestic air transportation services could be disturbed.

Closure or restructuring?

Air Moldova's future remains uncertain. The Ministry of Economy and Infrastructure, the Public Property Agency, the Civilian Aeronautics Authority, and the Chisinau International Airport work together to prepare a proposal for the Competition Council within six month. They have to decide whether Air Moldova is worth keeping – and restructure the company – or needs to be shut down.

Privatization of Air Moldova had been one of solutions until December 2017, when former economy minister Octavian Calmâc announced that it won't be in the sales list until 2019.

Economist Eugen Ghileţchii says in an analytical paper about state-run enterprises in Moldova that the country has been struggling with Soviet-era economic "habits" ever since it gained independence from the communist bloc. There's a large size of economy under the government's direct management and state enterprises have become genuine money wasters and sources of corruption, he stated. The expert of Expert-Grup think tank suggests that the state-controlled enterprises complied with the standards and rules that government the joint-stock companies. "In Moldova at this moment, joint stock companies are obliged to with in compliance with a corporate governance code, while state enterprises don't have this responsibility," Mr. Ghileţchii says in his study "Making State Enterprises Responsible. About the Black Holes of Moldovan Economy." ©

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How Many Schools Closed Under Filip Government Rule

On the last work day of 2017, the Ministry of Education, Culture and Research (MECC) released a draft concept of the National Curricula for all stages of secondary education – primary, gymnasium, and lycee (high school). The Democratic Party (PDM) immediately announced that the Government returned to the track of re-opening the schools that had closed under the previous governments. At least two schools would be reinstated soon after the early January vacation, the PDM promised.

„In the next semester, immediately after the [Russian Orthodox] Christmas, two primary class schools will reopen: in Fârlădeni, a village in Hâncești District (primary school + kindergarten, with one first class consisting of eight pupils and one fourth class consisting of 16 students), and in Țepilova, of Soroca District (primary school, for 21 students). We are also considering opening in early September 2018 a primary school in Bolohan village, Orhei (for 17 students). This is just the beginning," stated Monica Babuc.

Almost 700 schools closed under the Filip Government

This is the second reform in the education system which the government led by Prime Minister Pavel Filip pursues in less than a year. The focus which the ruling PDM highlights now – that the schools had been shut down by the previous governments – raises a number of questions. First one is which "previous governments"? Before the Filip times until January 2016, or before 2013, or 2015, or 2009?

Prime TV television, which is controlled by PDM chairman Vladimir Plahotniuc said in a video report that the school optimization reform kicked off in 2010 and lasted for seven years. "Most of the schools closed in 2015 – more than 170 institutions," the oligarch's channel claimed without giving any references or sources for this figure. Prime TV's report is contradicted by official statistics though. Mold-Street analyzed the official information regarding the number of education institutions over the past 15 years including the two-year period of the Filip Government.

A report from the Finance Ministry on the size of spending for education, for example, shows that 700 schools closed in 2017 through the end of 2017, the time when the state authorities approved the national budget: that number dropped from 3,914 institutions in early 2015 to 3,911 in early 2016, and then abruptly down to 3,214 at the end of 2017. The number of schools reduced by 18% under the Filip Government alone. Schools funded by the local public authorities were hit worst. The local public authorities in turn depend 85-90% upon the central government from the financial point of view. Respectively, they may not be blamed for closing those schools because of a decision taken overnight.

80 schools closed in 2016-2017

The Filip Government doesn't deserve any credits for the management of the primary and secondary general education. A press release from the National Statistical Bureau from December 26, 2017 says that the primary and secondary education system of Moldova at the beginning of the 2017/18 academic year comprised 1,243 institutions including 102 primary schools, 775 gymnasiums, 352 lycees (high schools), and 14 schools for mentally and physically retarded students. Compared with the precedent academic year, the number of institutions reduced by 48 units – 46 in rural areas and 2 in cities.

According to the official statistics, in the 2017/18 academic year the network of primary and secondary education has been affected by major changes – closures: 24 primary schools, 23 gymnasiums, one lycee, and one school for retarded students; four gymnasiums were downgraded to primary schools, 14 lycees were downgraded to gymnasiums, and a new lycee opened in the capital, Chisinau. The number of education institutions thus diminished by 80 compared with the 2015/16 academic year and by 105 compared with the 2014/15 academic year.

Number of schools depends on number of students

Official reports and independent sources show that the number of schools depends on the number of students rather than who comes to rule in Moldova. This is demonstrated by the figures from the past 10 to 15 years. In 2002-2003 there were some 603,000 students in 1,580 primary and secondary education system and five years later (2007-2008) there were 461,000 students (-142,000). While the number of students dropped by more than 23%, the number of schools reduced by 3% only.

During the last year of Communist Party's rule, the number of students dropped a further 5.8% down to 434,300, but the number of schools dropped only 1%. Ten years later, in the 20017/18 academic year the number of students dropped down to 335,600 (-23% or 100,000 students compared with 2008) and the number of schools reduced from 1,526 down to 1,243 (-18.5%). On average per year Moldova lost 10,000 students and 30 schools. Interestingly, in the 2017/18 academic year the system employed 28,600 professionals in the primary and secondary classes, that is 10,000 less than ten years ago.

High spending, low performance

In civilized countries though few would pay attention to the number of schools; usually it's the quality of studies and performance of the system that count most. In 2016, for example, World Bank economists emphasized that Moldova was spending more for this sector in comparison with other countries in the region or countries with similar revenues. They also found that the high spending for education or healthcare would not render better quality of services.

The average spending for education in Moldova was 7.2% of GDP during the period 2000-2014 – the highest in Europe and Central Asia. But that did not translate into the full occupancy of teaching jobs or academic performance of students. In 2018 the national spending for education activities will amount to 10.42 billion lei, or 6.5% of GDP and 16.9% of the total national budget, the Finance Ministry said. Compared with the 2017 budget, the one for 2018 will be 7.6% (740 million lei) larger. ©

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Fortunes, Business Partners and Ghost Projects of Former Premier Chiril Gaburici

The appointment of former premier Chiril Gaburici as the candidate for the post of economy minister has reinforced the public interest about this person. While many still remember that he quit from the post of prime minister amid a scandal related to his fake higher education diplomas, few would recall his decisions during his short role as the head of cabinet.

On December 19, 2017, Democratic Party chairman Vladimir Plahotniuc announced that seven ministers on behalf of his party would leave their posts in the government and that new professionals with technocratic background would be hired instead. Prime Minister Pavel Filip, a close man to Mr. Plahotniuc, said the new appointments represented “a logic step that demonstrated the Government’s intention to be closer to its citizens.” The renovated team will welcome persons who had been part of the Moldovan government in the past, including two prime ministers who signed the agreements that guaranteed the 14-billion-leu bailout for the three banks involved in a one-billion-dollar fraud in 2014.

Why Gaburici?

Compared with ex-premier Iurie Leancă who has remained in public view as a lawmaker and deputy chairman of the Parliament, Chiril Gaburici has been less visible. Some know him as a reformer. Vladimir Plahotniuc told the state-run news agency Moldpres that Chiril Gaburici earned the post for being “the right person to work for the resolution of all major issues in Moldovan economy and infrastructure” and that he was captured by Mr. Gaburici’s “skills of managing such important sectors as economy and infrastructure.”

Mold-street.com has reviewed the activity of Chiril Gaburici during his premiership and the two and a half year after his resignation. Mr. Gaburici has not answered the phone or emails to have some questions settled ahead of publication of this story.

Cynical decisions of Gaburici cabinet

Chiril Gaburici was appointed as the chief of cabinet in February 2015. Before that, he had run the telecommunication companies Azercell in Azerbaijan and Moldcell in Moldova. He joined the government exactly at the time when the currency crisis was at its peak and one US Dollar exchanged for 24 Moldovan Lei. Stabilization of the currency market was one of the priorities Mr. Gaburici’s team announced.

Although Chiril Gaburici managed the cabinet of ministers for less than four months, he remained in the collective memory as a critique to the Prosecutor-General’s Office, the National Bank, and the National Financial Market Commission – he publicly demanded the heads of these institutions to resign over poor performance. A pack of controversial decisions which his government passed brought his a negative notoriety.

For example, in early April 2015, the Gaburici Government amended the Customs Code, allowing the legalization of duty-free shops in the breakway Transnistrian region, which is outside of Moldova’s control. In May these shops received operation licenses in Chisinau and within three months more than one billion contraband cigarettes flooded the European Union market, mainly in the United Kingdom. The proposal by the way came from the then reintegration minister Victor Osipov, who is currently Moldova’s Ambassador to Austria. Half a year later he asked a repeal to this decision, under pressure from Brussels.

Another controversial decision of the Gaburici Government gave the international community a motive to halt its assistance for Moldova. This is how it happened. On April 8, 2015, then economy minister Stephane Bride proposed the government to amend the Law on Financial Institutions (Banks) by changing the content of Article 15 with the following sentence (translation): “None of shareholders in a bank may contribute any shares from his possession to the social capital of the bank.” In the old version, the agreement from the National Bank was necessary to carry out such operations. The government passed the amendment under its own responsibility and this decision blocked the plans of the European Bank for Reconstruction and Development (EBRD) to take over 50% of Victoriabank’s stocks.

EBRD Vice Chairman Philip Bennett described the move of the Chișinău Government as "a deliberate and cynic action." The amendment [which the Gaburici Government enforced] blocked the expected transaction and raised questions about the commitment of the Moldovan authorities to clean up the bank sector and improve the corporate governance of domestic banks, the EBRD official said. The amendment was subsequently withdrawn but the EBRD missed the opportunity to get Victoriabank under its control.

How much Gaburici earned as a premier

The new economy and infrastructure minister quit from the post of prime minister on June 12, 2015 after the investigative magazine Ziarului de Gardă published an investigation how Mr. Gaburici had failed the baccalaureate examinations at an unlicensed university where he had studied economics in absentia, without attending a single lecture. Prosecutors immediately filed a case based on the story but never clarified the issue – even until today. On announcing his resignation, Chiril Gaburici explained to the press that he decided to leave the post as a result of public pressure in connection with his diplomas and as a gesture to "let the country focus on truly important issues." He denied any political motivation behind his decision.

More than one month after his departure from the government, his declaration of revenues was made public. Mr. Gaburici earned some 183,200 lei in salary benefits. During his time in the government he sold a company called Halat Auto SRL for 4.66 million lei, with the buyer expected to pay off, in rates, by May 2018. He also admitted to be the owner of Green Property SRL, where his former senior advisor Steluta Andreev is the executive manager.

Mr. Gaburici declared his ownership on three mansions totaling more than 550 square meters, four fields for construction, and two agricultural fields. His family also owned an apartment, non-residential space that covered 135 square meters. The former premier is also a fan of German cars – he declared an Audi-TT made in 2011 and worth 42,000 euros, a 2008 Volkswagen Multivan worth 20,000 euros, and a 2012 BMW motorcycle worth 8,000 euros.

Business partners

During the past two years the Gaburici properties undergo some changes. In late 2016, the family sold a house in the capital to a business couple - Luc Engelen, Belgia's honorary consul in Moldova, and Lilia Sinciuc-Engelen. The Engelens run a number of businesses in Moldova. The Gaburici are associated directly and indirectly with at least six companies.

Wife Irina Gaburici owns entirely a company called Crazy Kart SRL, which got its registration certificate three days after the resignation of her husband from the government. Chiril Gaburici is an associate in four firms: Legal 4 Business SRL, Mobil-Import SRL, Green Property SRL, and M-Docs SRL. In Legal 4 Business SRL he owns 45% of the stake and is his partner is the wife of former justice minister Oleg Efrim - Violeta Marian Efrim (45%) – and Olga Cebanu (10%) as a minority partner. This firm controls the legal news portal bizlaw.md.

In M-Docs SRL, Mr. Gaburici ownes 33% of the capital. His business partners are Gheorghe Nicolaescu (34%) and Liliana Iliescu, spouse of Iurie Ciocan (33%), former chairman of the Central Election Commission. Mr. Nicolaescu by the way is a close aide of oligarch Vladimir Plahotniuc, a RISE Moldova demonstrates.

In 2008-2009, Gheorghe Nicolaescu (39 years old) managed Local Media SRL, an advertising agency that had been traded between offshore firms and finally got into the shopping basket of the Dutch company OTIV Prime Media BV – a central piece of Mr. Plahotniuc's empire that was managed by his god-son Andrian Candu, who is currently the chairman of the Moldovan Parliament, RISE disclosed. The 2014 financial report of the Moldovan Democratic Party (PDM) states that Local Media SRL earned more than 270,000 lei in advertising contracts from the PDM. In Romania, Nicolaescu is associated in Stretch Design SRL with Dorin Pavelescu, an intermediary for Mr. Plahotniuc.

Mr. Nicolaescu is the solely owner of a communication company called KVK-Moldova SRL, which has been a distributor and partner of mobile phone operator Moldcell SA since 2012 – the year when Mr. Gaburici was still the CEO of Moldcell.

In Mobil-Import SRL, Chiril Gaburici is associated with Artur Verstiuc, as half proprietors. This firm controls LED-Media SRL, which owns a land field at the crossing of Constantin Stere Street and Alexei Mateevici Street in the capital. On this field, Sel&Co SRL of social-Democratic leader Victor Selin had planned to build a trade center with an underground parking lot. It's just a pitfall filled with the foundation and a fence surrounding the field there.

Green Property SRL, also owned by Chiril Gaburici, deals with agricultural businesses and wholesale of fertilizers.

Non-existing project of ex-premier Gaburici

In September 2016, the Moldovan Academy of Sciences announced that a firm of Chiril Gaburici - Fly Ren Energy Company - was selected for a project that envisaged the construction of a Solar Park for clean energy research and training of energy specialists. The Solar Park was designed as an experimental field covered with photovoltaic batteries for the study of alternative energy sources in agricultural purposes. Mr. Gaburici, who already was in the post for half a year, confirmed the partnership but declined to reveal the costs or the source of investment.

In this project, the Institute of Genetics, Physiology, and Plant Protection – a subsidiary of the Academy of Sciences – was expected to let Ren Energy Company use a field of six hectares between the capital and its airport, for building the Solar Park. The project has not advanced an inch ever since. Larisa Andronic, deputy director of the Institute, says she cannot remember about such a project. Nor does Lidia Romanciuc, head of the Academy's Center for International Projects.

Only Roman Chirică, director of the Agency for Innovation and Technology Transfer, says he "heard about a project of this kind, but thought it was designed for creation of an enterprise for manufacture of solar panels." Chiril Gaburici never answered Mold-Street.com's phone calls or emails on the topic.

Fly Ren Energy Company was founded by Italian businessman Garuzzo Carlo Arturo. It is run administered by Irina Sîpunova; she also runs two firms where Mr. Gaburici is one of the associates. Sources in the Academy of Sciences said the project had not started because of the shortage of funds and the investors behind it had hoped to use international lending programs in Moldova for the Solar Park and likewise. ©

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Chișinău Municipality Spends 400 Million Lei a Year for Two Bankrupt Enterprises

The Chișinău Municipality spends more than 10% of its yearly budget to keep afloat two bankrupt enterprises: the Electric Transportation Company (RTEC) and the Bus Urban Company (PUA), which are providing for the public trolleybus service and the public bus service in the capital, respectively. Year 2018 won't be an exception compared to the past practice: the city administration expects 3.76 billion lei in revenues from tickets and 4.05 billion lei in expenses for maintenance and salaries mainly. The deficit will amount for around 290 million lei.

10% of municipal budget for public transportation subsidies

The capital's administration will use almost 10% of public expenses this year to subsidize the two largest service providers – RTEC and PUA – in the public transportation system, except for the minibus shuttle services that are managed by private operators. RTEC will receive some 250 million lei from the municipal budget; this is a huge sum compared with the subsidies given three or four years ago. The gross of this amount, 177 million lei, will be used to cover the operation losses. Another 72 million lei will be used to assemble automatic-driving trolleybuses.

In 2018 RTEC will operate 302 trolleybuses, compared with 298 machines in 2016. Two years ago RTEC posted expenditures of 366 million lei and revenues of 177.8 million lei. The difference of almost 190 million lei was covered by the municipality, though the company said it had received only 139 million lei. This year, RTEC expects to earn almost 200 million lei from tickets, that is more than twice below the necessary 418-million-leu spending.

Raising the cost of tickets would be a solution to reduce the subsidy burden. The authorities need to increase the cost of tickets at least twice, from current 2 lei and 3 lei for travel by trolleybus and, respectively, bus. In March 2017 RTEC asked the Chisinau Municipal Council to raise the tariff by at least 50% (up to 3 lei), but the municipality turned down the request.

Expenses are five times larger than revenues

PUA doesn't fare any better. This enterprise earns between 30 and 33 million lei from tickets but spends five times more. In 2018 its expense bill will top 156 million lei. The bus ticket price covers only 25% of the bus travel cost. The municipal budget for this year earmarked 116 million lei for PUA's operations, plus 30.5 million lei to purchase new vehicles.

The subsidies have been crucial in preventing the company from going bankrupt. PUA management asked the Municipal Council in 2017 to "adjust the tariffs to real costs" and complained that it had been unable to buy new vehicles that would replace the over-aged buses. The tenders it organized last year for new buses all failed.

PUA wants to raise the ticket price up to 4 lei during the day and 5 lei after 9 p.m.

Three years ago the Government announced that PUA would assemble Belarus-made MAZ buses in Chisinau. The Minsk-based MAZ manufacturer in Minsk and PUA agreed to share the costs for part shipping and assembling in a multi-million joint project which the Moldovan Government had mediated. Moldovan officials said that PUA was to release 120 buses for use in 2016-2021.

A strong economic argument in favor of modernizing the municipal transportation enterprise was the cost for usage: the buses aged 23 years and more consumed 18.8 lei per kilometers and 8-year-old vehicles consumed 15.7 lei per kilometers. In one year a PUA bus covers 7 million kilometers on average. The project with the Belarussians would save about 21.7 million lei a year, the Economy and Infrastructure Ministry had estimated. No one in the Government or the Chisinau administration would remember about this project now.

True cost: 10 lei

Unlike the two municipal transportation enterprises, private transportation companies – which operate minibuses for passengers – have never received any subsidies. On the contrary, they contribute dozens of millions to the capital's budget. It's true that their revenues are on the decline, given the abrupt reduction of the number of minibuses that are allowed to operate.

An association of private transporters had repeatedly asked the City Council to raise the ticket costs and even held protests, but the capital's administration never gave in, invoking various reasons. Estimates by private transporters and trade unions say that a ticket should cost 10 lei in order to cover the expenses. However, none of private operators believes that such a tariff will be ever accepted.

Ion Mămăligă, chairman of the Moldovan Association of Private Transporters, says the municipality isn't really interested in developing the internal passenger catering services, predicting that while the authorities will remain unable to solve the transportation issues, the number of private vehicles will be withdrawn gradually from operations. "Some itineraries have been cancelled, some machines have remained out of business or are no longer suitable for use. I mean our request for a raise is not a caprice, it's a necessity. It's the customers who will be the biggest losers from all this mess," Mr. Mamaliga stated.

Tariff frozen since 2006

The present-day tariffs for trolleybus (2 lei) and bus (3 lei) travel in the capital have been in effect since September 2009. In the case of private transporters who operate minibuses that tariff – 3 lei – has been in effect since July 2006. ©

Where Are Billions from the Public Budget Gone? No Allowances for Children in State Custody

In several northern districts of Moldova the authorities have not paid the allowances for children placed under the state custody program for a few months. The orphan children, too, have not received any allowances. The Moldovan Fiscal Service and the Customs Service have been spotted in lauds for themselves for “a remarkable job” in collecting a record revenue sum to the public budget in 2017.

"The revenues under the administration of the State Fiscal Service to the national public budget in 2017 grew by 18.4% compared to year 2016: up to a record 32.7 billion lei, that is a growth of 5.1 billion lei as agains the precedent year," the tax authority said in a press release.

The Customs Service, too, credited itself with an active role in the budgetary process: it collected 20.73 billion lei during 2017, which is 2.9 billion lei (+16.6%) more than in the precedent year. The Parliament also published a note about its labor with adoption of “hundreds of laws and decisions that will bring prosperity to the common people.”

On the other hand, Mold-Street learned that dozens of orphan children and children under custody of legal tutors in the northern part of the country have not received their allowances from the government. More than 60 of those children live in the Edineţ District.

Delays for months

A monthly allowance for those children amounts to 800 lei, therefore doesn’t costs too much to pay off a few hundred children to solve the problem. It’s a drop in a sea of revenues which the Government says it had been able to collect.

The issue was revealed by parents from the Edineţ District, who complained that the authorities had not paid the allowances for children in their custody for three months. “In the past, we used to receive the money on a regular basis. Until October 2017. Not one leu since that time. We are told that the money will be given next month, but it’s already been three months we haven’t seen any payments,” a mother said.

Whose fault?

Vladimir Hristecu, head of the Department for Social Assistance and Family Protection in Edineț, admits there is a problem with the allowances but he claims to know “only about two months’ debts.” - “We do owe allowances for two months and it’s definitely not our fault. The money usually comes from Chişinău. There’s been some sort of changes in the central government, and reorganizations. For example, the Edineţ District Treasury has been closed and our region is being served by the Treasury in Bălți,” the functionary explained.

A similar situation appears in the Râşcani District. In the district of Ocniţa local officials told Mold-Street that things were under control there. Our calls to the Edineţ District Treasury and the Bălţi Regional Treasury remained unanswered – no one picked up the phone. But Angela Voronin, head of the State Treasury in the capital, denied any arrears on the center’s site. "This is not true! We don’t owe anything. All the money has been transferred!" Mrs. Voronin cut it short.

Then, where is the money? Finance Ministry officials promised to clarify the question and return with an answer as soon as possible. On the other hand, local finance clerks in Edineț and other districts said the payment orders had been issued and they were waiting for the central Treasury to disburse the cash. Normally, it does so twice a week – on Tuesdays and Thursdays – therefore they expected the money to enter the regional accounts on January 17 or 18, “or perhaps later.”

Budget amendment in detriment of children

Mold-Street attempted to clarify where the money for these children got stuck and why. Sources in the government pointed to a hasty process of legislative changes to the 2017 budget and to the spending framework for the districts. This was done in order to get an easy hand to report to the International Monetary Fund how cool Moldova has optimized the public spending. Things are getting to absurd – it the IMF to blame again?

We found a Law #230 from November 10, 2017, which amended the State Budget Law for 2017, which the Government approved quickly and the Parliament adopted on even a higher speed track. As a result of those changes, the allowances for children in custody and for orphan children, and other beneficiaries, have been cut down. Please mind that it was the second budgetary change in 2017. It provided for an additional 1.14 billion-leu spending for the Parliament, public investments, agriculture, and projects proposed by the local public authorities. The Parliament, for example, received around 88 million lei above the sum already earmarked earlier. Prosecutors and judges are among other beneficiaries who would get larger wages – plus 5.9 million lei.

A system problem

Sociologist Viorica Antonov says that “things are serious” in this area and that payment delays for children with special needs are “usual occurrences” rather than exceptions. "As a matter of fact, such delays are very frequent and as a rule they happen close to the end of the year. The pensions and other social benefits, too, are delayed. I think it’s a system problem in the middle. Before the money arrives to these children and other beneficiaries, it gets used in many other operations," Mrs. Antonov stated.

The sociologist believes that the payment system is slow and over-bureaucratized, and it needs to be reformed. Around 3,000 children in Moldova who lost their parents have been placed under the state tutorship program, according to official reports. The country spends 25-28 million lei a year to pay them by 800 lei a month. P.S. Three days after the publication of this articles, the authorities paid off a part of the arrears to families with children in their custody. ©

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The Filip Government at its Second Anniversary, in 15 Economic Indicators

On January 21, 2018 the government led by Pavel Filip turned two years since it gained parliament approval to run the daily businesses in Moldova. The second anniversary is a good reason to review the main achievements of this government. The investiture of the Filip government took place in a very specific context, following the decision of former President Nicolae Timofti to reject the candidacy of Vladimir Plahotniuc for the post of prime minister and mass protests outside the parliament doors.

Five governments in 2015

The Filip government took over after a difficult year 2015, when the one-billion-dollar bank fraud sent out strong social, economic and political waves that shocked and shook the entire society. Back in 2015 Moldova changed five chiefs of cabinet, including two interim premiers - Iurie Leancă, Chiril Gaburici, Natalia Gherman, Valeriu Streleț, and Gheorghe Brega. The cabinet of Mr. Filip itself suffered major changes since January 2016 - only three persons stayed within it: Premier Pavel Filip, Finance Minister Octavian Armaşu and Education and Culture Minister Monica Babuc.

For a systemic analysis, based on figures rather than perceptions or subjective opinions, we chose 15 relevant economic indicators, which can be compared through a timeline with the results of the previous governments. Please mind that many indicators for year 2017 are estimates based on the trends in the last months or forecasts from the Economy Ministry.

Zero impact of government’s consumption on economic growth

• Unsustainable economic growth – the Moldova economic growth in 2016 was 4.1% while the estimates for 2017 showed 3.5%. Compared with the past years such as 2010, 2011 or 2013, these figures are below the past performance.

Analyzing the GDP share in the growth structure we noticed that the Moldovan economy was above the zero line thanks almost entirely on the final consumption in individual households, and that the consumption in the government and public administrations was zero. Then the contribution to the formation of fixed capital was tiny given the modest investment activity over that period. On the resource side, in 2016 agriculture counted for half of the economic growth while in the nine months of 2017 trade, transportation and excises were the main engines for growth.

Promotion of Moldovan exports in the EU

• Free Trade Agreement with the EU boosts exports – in 2017 Moldova's exports increased by more than 15% and this happened primarily thanks to the EU's absorptions. Two out of every three US dollars were earned from the exports to EU markets where the growth was 20%. The worst year for Moldovan exports was 2015 – one may blame both external and internal factors – while the best year was 2011 (+43.8%). It will be hard to repeat that seven-year-old performance.

A sentiment of low confidence in economy

• Crediting on the decline, investments in stagnation – although government officials including Prime Minister Pavel Filip like to talk about a "restoration of confidence of the business community," the state of spirit in the business is rather cautious and uncertain. This sentiment is fuelled by a stagnating investment activity and slowing bank financing for companies.

After two years of successive falls – 9.4% in 2015 and 12.8% in 2017 – the official expectations pointed to a mere 3.0% -increase of investments in long-term material assets, in spite of a low value base for comparison. The low investment appetite of entrepreneurs reflected in a weak loan lending process, which continued to decrease during 2017. That year the credit portfolio in the banking sector lost only 2.8% thanks to the strong lending performance for individual clients.

The best investment performance Moldova achieved in 2010 and 2011 and the best lending activity in the banking sector was recorded in 2014. Yet the growth of 28.1% in 2014 was suspicious, because the main source of growth was generated by numerous schemes of the one-billion-dollar bank fraud. The collapse of the lending activity after the shutdown of three commercial banks, in the same proportion, in 2015, simply confirms this suspicion.

More expensive health - literally

• The increase of prices and of the exchange rates after the depreciation of the national currency by 34% compared to the US Dollar, in 2015, was a direct effect of the fraud in the banking sector. In 2016 the Moldovan Leu lost less towards the American Dollars, and in 2017 the trend reversed. No major fluctuations were seen in the past two years.

Inflation in the last two years was 6.4% and 6.6%, just at the limit of the central bank's target of 5.0% +/- 1.5. During the mandate of the Filip cabinet, the prices soared most in the case of cigarettes (more than 20% in both years), but ironically, not the vices – health too has become more expensive. In early 2017 the government increased the tariffs for medical-sanitary services and by the end of that year they consumed 66.6% more from patients' pockets, according to official statistical data. On the opposite side, the prices decreased most for onion and carrots.

In October 2016, during the presidential election campaign, Premier Pavel Filip promised to do his best in order to push down the prices of medication. He committed himself to reduce the prices of most important and common medicines by 40%. Well, the official figures from the National Statistical Bureau showed that in 2016 the prices for medicines increased by 1.6% on average, and in 2017 they decreased by 2.7%.

Better financial discipline

• More budgetary collections – official figures show a better fiscal and budgetary discipline and more collections, and IMF assessments confirm this as a fact. In 2017 the collections to the National Public Budget increased by more than 17% and this performance is comparable to year 2010. However, there's a big difference between those periods: in 2010 the Moldovan economy grew by 7.1%, while in 2017 the growth was just 3.5%. This speaks of an improved fiscal management and enhanced measures to get what belongs to the public coffers.

As for the customs duty collections, they were large enough in 2017 (+17%) but it's not about an extraordinary performance of the customs authorities, as the government claims. For example and by comparison, in 2010-11 the Customs Service reported collections growth of 26.7% and 22.0% respectively.

Triple internal public debt

• Burden of the Billion-Dollar Fraud – the conversion of the financial guarantees given by the governments of Iurie Leancă and Chiril Gaburici to the robbed banks into the internal state debt, in September 2016, was one of the challenges of the Filip government. As a result of that conversion, the share of the internal state debt in GDP increased from 5.9% in 2015 up to 16.0% in 2016.

However, if concerning that conversion the Filip government has only translated into fact the obligations assumed by the previous governments, it had advanced not one inch in the investigation of the fraud. The money that is being recovered now comes from the sales of assets owned by the three banks but the stolen money remains stolen. As of the foreign state debts, in 2016 it reached a record high of 21.8% of GDP and in 2017 it reduced somehow to 19.4% of GDP.

Rising wages, less employees

• Real increase of wages – figures from 2017 show that the wages in Moldova were on a real rise of 5%, as adjusted to inflation, and this is above the average for the analyzed period. In spite of the wage growth the number of formally employed people the Filip government has not been able to stop the six-year-long decline. A research by the National Statistical Bureau shows that the number of full time employees in September 2017 totaled 419,500 persons. This is 12,500 lei than in September 2015. The statistics included the enterprises and organizations with 4 and more employees. ©

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The Dairy Scandal: Government Warns of Tough Sanctions but Postpones Enforcement of EU Requirements

The publication of the findings of laboratory tests that had been commissioned by the East-European Foundation (EEF), which showed quality shortcomings in 126 milk samples, caused a true bomb blast in Moldova. The government was caught unprepared and consumers began questioning where the authorities were able to do their job properly.

Moldova's largest dairy producer, JLC Group, is directly concerned in the laboratory study. Its managers rejected the results of the tests, which they described as "actions on orders." JLC wonders why the findings were published two months after the collection of the samples, given that it could no longer submit any samples from that period for additional tests. On the other hand, the results of those tests raised questions about what specifically the competent public authorities are supposed to do regarding the public health safety and why the EEF didn't care for all 26 dairy producers in Moldova.

ANSA re-activated

The National Food Safety Agency (ANSA) is in charge with the enforcement of the state policy on food safety and sanitary-veterinary monitoring. The agency immediately reacted to the news and published in turn an action plan for inspection of dairy producers and supermarkets. It also decided to check up every imported shipment at the national border and take samples on the spot. ANSA teams were deployed at the factories and storehouses of JLC, Bantacard, Ferma cu Origini, Fabrica de Unt din Floresti, Lactis, and a number of distributing and trading facilities that included supermarkets. They collected samples of dairy products to measure the microbiological and phisio-chemical indicators, antibiotic sediments, and fats.

The National Center for Veterinary Diagnosis received 120 samples for laboratory tests (the EEF study covered 126 samples). The results of the tests are expected to be released on Monday, February 12, 2018. ANSA said no word about whether or when other dairy processing factories will be inspected too.

26 processing enterprises are inspected four times a year

On Wednesday, February 7, 2018, ANSA convoked a meeting with agriculture officials, trade unions, accredited laboratories, and dairy processing enterprises to hear their reports on the issue and analyze the situation. According ANSA Deputy Director Ion Toma, the agency has a multi-annual plan for inspection and verification of quality. The facilities where milk is collected are inspected twice a year; overall last year there were 1,334 checkups that generated 287 prescriptions and 27 reports on the findings.

The dairy processing enterprises are inspected four times a year; overall last year there were 105 checkups that generated 47 prescriptions and 12 reports on the findings. Mr. Toma said 48 samples out of 690 collected in 2017 showed results below the quality standards, of these 15 samples failed the fats tests.

ANSA talks of sanctions and EU norms

To overcome the challenge, ANSA announced that it would severe the sanctions on companies placing counterfeit products, including the shutdown of factories for a given period. In order to prevent the improper use of vegetal fats, ANSA said it had written an amendment to the existing regulatory framework, namely the Government Decision #611 from July 2010. It covers the technical requirements for milk and dairies, such as criteria for the fabrication and sale of dairy products.

ANSA proposed in particular to exclude the description “dairy products” from products that contain vegetal fats and to separate those products from “real” diaries on supermarkets’ shelves. A number of questions linger regarding this proposal. According to the government’s performance report regarding the implementation of the EU Association Agreement National Action Plan, the regulation mentioned above needed to be updated and approved in 2017. It is a key document in the dairy industry as such.

The ministry of Agriculture and Food Industry reported two years ago that the document was being drafted and that two meetings with representatives of milk processing factories were held in 2015 as part of the public consultations process.

Technical shortcomings on the way to the EU

In 2015, a version of that document appeared on the website of the Ministry of Agriculture and Food Industry and only on December 1, 2017 on the public consultations website particip.gov.md. A few months later though, the document was deleted without any explanations. It can still be found in cache via Google search.

Officials at the Ministry of Agriculture, Regional Development and Environment – as it is called now – have explained that the document “contained certain technical shortcomings” and therefore needed to be updated. Mold-Street’s attempts to discuss about this project with two functionaries who were in charges with its updating were unsuccessful – one is no longer employed at this institution and the other excused himself due to his vacation.

The document in question is designed to translate the EU Regulation #1308/2013, which sets out the rules for joint organization of food markets and fills in the gaps that exist in the current Moldovan regulatory framework. It also provides for clear terms and definitions, trade names, and common norms for milk and dairy products for consumption by humans – this aligning the domestic provisions to the EU ones.

Adoption and enforcement of that document would boost the trade with milk and dairies with EU countries, given that Moldovan producers and exporters complied with the EU requirements.

Moldovan Government isn't in a hurry

A third document that expected approval in 2017 is a governmental decision on the methodology of examination and testing of boiled milk that is sold for direct consumption. It is a commitment of Moldova in its plan for implementation of the Association Agreement with the European Union.

This document, too, was uploaded on particip.gov.md only on December 26, 2017, and is expected to translate the EU legislation into the domestic legal landscape as concerns the procedures for examination and testing of milk that is treated thermally and is good for direct human consumption. This document sets out for the methods that would allow inspectors to determine the dry substance, the content of fatty substance, the content of skimmed-dry substance, total nitrogen substance, protein content, and the bulk density.

Some specialists have warned that Moldova needs a transition period of several years before abiding strictly to the EU norms. A sudden and unprepared enforcement of these documents would ruin most dairy enterprises and would halt the collection of milk from farmers. Imports would then flood the Moldovan market, they said.

Overall, under the national actions plan for implementation of the Association Agreement, Moldova committed itself to work out and enforce 12 regulatory acts related to agriculture and food industry in 2017. ©

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Big Problems for the Largest Dairy Producer: The Oligarch Gets In

Following a call from Democratic Party leader Vlad Plahotniuc on February 13, 2018, for the government institutions to get hornier on food safety issues, the wheels of the state machinery got on the move. "I've seen all kinds of reports, from ANSA [domestic food safety agency] and other institutions, but the problem has not vanished. It's a fact that has been cooking for years and it's high time we stopped it," the oligarch said in a public statement. He called on the Government to come forward with an action plan designed to enhance the public food safety. Mr. Plahotniuc, who titles himself as "coordinator of the ruling coalition," also promised to review and improve the legislative framework.

ANSA demands withdrawal of inconsistent products

Immediately after Mr. Plahotniuc's announcement, several government institutions reacted all at a sudden more firmly in their carrying out their duties. The JLC group of companies has become the main target. The same day, on Tuesday, ANSA's district divisions „recommended" the JLC plants, in particular, to "withdraw all dairy products that were inconsistent with the safety rules" and simultaneously sent out inspectors to those plants.

ANSA director Gheorghe Gaberi said the initiative with inspections belonged to the district divisions and assured that the agency's central office stayed out the check-out process. "The central office isn't entitled to carry out inspections," he said.

In the city of Bălţi, local ANSA inspectors visited Incomlac, a dairy of the JLC group, being flanked by journalists from the General Media Group, a media holding controlled by Vlad Plahotniuc. In the capital, Chişinău a team of ANSA inspectors visited JLC markets to learn how they complied with ANSA's recommendation to withdraw their "defect" products from the shelves.

Roman Vengher, head of the municipal department for food safety in Chișinău, told Mold-Street that under the current Law on Food Products the dairies which are not compliant with the food safety rules must be removed from the shelves and production itself of such products must be ceased. "We have reminded the company [JLC] what the law says, what it is obliged to do, and the producer has to report to us on its compliance and let consumers know what was wrong with the products," Mr. Vengher said.

"A producer is obliged to cease immediately production of food and of materials in contact with that food, which are not compliant with the food safety regulations or are dangerous for consumption, during the entire period that is necessary for solving the situation. If it is impossible to find a solution, the producer is obliged to cease the production and marketing of the above-mentioned products and materials, to remove them from the trade circuit – including buyers and consumers – and to carry out an examination and their further conditioned use or destruction," the law reads.

The decision taken by ANSA demonstrates that this state institution in fact recognized the results of the tests which a few weeks ago were made public by the East European Foundation. Although the laboratory tests for the samples ANSA collected more than two weeks ago have not been finalized. “On Tuesday [February 20], we’ll be holding a meeting with all producers – these are 29 dairy processing enterprises – to review the results of the tests and discuss the dairy scandal around their products. We are going to get tough and force them to respect the regulations,” Mr. Gaberi stated.

JLC chees is already good, while butter fails the test

ANSA papers revealed that no vegetal fats had been found in the sour cream, fresh milk, and some certain types of granulated cheese, based on the findings of the Central Republican Laboratory of Veterinary Diagnosis (fitness 0%, cow cheese 9%). This means that the reports published by the Eastern European Foundation had not confirmed – these products didn’t have vegetal fats and fully complied with the norms.

In the case of fresh cow cheese of 2% and 5% the deviations were minor. On the other hand, there is plenty of vegetal fats in JLC butter, which is a popular product in Moldova and JLC’s one of the best-selling products. As a consequence, the municipal department for food safety of Chişinău requested the removal of JLC butter from the shelves and ANSA deployed inspectors to food markets without a prior notice.

JLC and Incomlac management has made no comments so far pertaining the dairy product scandal while specialists at those enterprises told reporters that their internal laboratory tests had shown no deviation from the norms. “Our internal investigations at the company lab showed that everything was okay. We intend to sign up for services of independent labs, whose results are 100% real and which would not fulfill someone’s orders,” Veronica Mămăligă, a technology at JLC, told TV8, an independent television station.

Competition Council objects, too

A coincidence or not, the same Tusday, February 13, when Mr. Plahotniuc called for measures against dairy companies, the Competition Council, too, got involved in the matter. Its offices are right near the headquarters of the Moldovan Democratic Party, which is chaired by the oligarch. The Competition Council announced that in April 2017, almost a year ago, it started “a probe regarding the suspicions under the market dominance clause from the Competition Law by JLC and enterprises that are part of the group.”

The Competition Council asserts that it has found unlawful clauses in the contracts which JLC and Incomlac had signed with (super)markets and trading units. Under those clauses the markets placed JLC and Incomlac products in more favorable positions on the shelves than other products, and in return they got paid substantial bonuses for marketing services, the Council explained. The Council asked JLC management to provide more insights about those deals with the markets during the period 2013-2018, including copies of the contracts.

It was not immediately clear if the Competition Council investigated other dairy producers. Under Moldovan laws, investigations by this authority are confidential but the suspects - alias producers - must be informed when they are envisaged. JLC group is the largest dairy processing concern in Moldova. It also runs operations in Romania, Ukraine, Kazakhstan, and Germany. ©

Economic Dependence on Russia. What has Moldova Learnt?

Relationships between the Republic of Moldova and the Russian Federation have always been complicated since independence was proclaimed and there is an important factor beneath them: the first always depended on the second from the economic point of view.

During the past year the Moldovan-Russian relationships were marked by a dualism in which President Igor Dodon flirts with the Russian leader at official meetings while the Moldovan Parliament and Government fire tough criticism at Russian authorities. The frictions have reached new heights after Chisinau accused Moscow of harassing Moldovan officials and Speaker Andrian Candu warned that Moldova could claim reparations of billions for the military occupation of the Transnistrian region. The Kremlin on the other hand is irritated of the new Moldovan legislation on combating (Russian) propaganda.

Moscow however never hesitated to show the leadership in Chisinau that it would use any kind of pressure when it doesn't like Moldovans' decisions. There are plenty of examples in this regard and the most notorious sanctions for "insubordination" are the wine embargos (2006, 2013), fresh produce embargo (2014), unilateral customs tariffs (2014), and threats to make the lives of Moldovan migrant workers in Russia tougher.

Mold-Street decided to analyze just how much Moldova depends on Russia from the economic point of view. For this, we scrutinize three major aspects in the bilateral economic ties: 1) Russian investments in Moldova, 2) bilateral trade, and 3) remittances.

INVESTMENTS: Russia remains the biggest investor in Moldova

In spite of a number of reports a few months ago that Russian capital was running away from Moldova, Russia has always been the main foreign investor and remains as such even today. This conclusion derives from the figures provided by the database of the Coordinated Direct Investment Survey (CDIS) of the International Monetary Fund (IMF). At the end of 2016 Russian investments in Moldova amounted to 716 million dollars, without the secessionist region.

Although the Russian investment stock decreased by 70 million dollars since 2012, its share in the total FDI increased from 23.0% in 2012 up to 27.4% in 2016. Please mind that the FDI volume in Moldova in 2016 amounted to 2.61 billion dollars, which is 812 million dollars less than in 2012. At the same time, the National Bank of Moldova suggests that the Russian capital is present in Moldova mainly as debt instruments, rather than company shares or participations in investment funds.

According to the latest publicly available statistical information, Russia ranks the fourth in terms of cumulated investment in the social capital of Moldova-registered enterprises, with a sum exceeding one billion lei. That is around 9% of all FDIs in the social capital of Moldovan enterprises.

More than 400 Russian capital enterprises in Moldova in ten years

In a period of ten years - 2008-2017 – Moldova registered as many as 44 enterprises with Russian capital. The most of them were founded in 2011 and 2017 and the least in 2016. The share of companies with Russian capital that pick up Moldovan certificates varies between 5% and 10% yearly.

Avia Invest is certainly by far the most notorious Russian venture in Moldova over the past few years. It was founded on August, 2, 2013, being shared equally by the Khabarovsk Airport and Kolomensky Plant, two joint-stock companies in Russia. Avia Invest is running the Chisinau International Airport on concession conditions, for a period of 49 years; its investment commitment is 244.2 million euros.

An investigation by RISE Moldova, however, reveals that the company changed proprietors several times ever since. In the latest episode of the kind, Komaksavia – a Moscow-based limited liability, sold its share of 95% in Avia Invest to Komaksavia Airport Invest, a limited liability in Cyprus. The only shareholder that directly reminds of Russia – the Khabarovsk Airport – controls only 5% of the capital. There is a collection impression in Moldova that the concession of the Chisinau International Airport is an interface rather than investment and that the true beneficiaries have roots in Moldova.

Generally speaking Russian capital is present in all sectors of Moldovan economy - from natural gases and oil commodities, to telecommunications, banks, media, and down to the food processing industry and online payment terminals. Russian-owned enterprises also are the heavyweights in terms of concentration and turnover - Gazprom in MoldovaGaz, Inter RAO EES in the Cuciurgan power station, and Lukoil. However, if we count the country of origin of investments, the British Virgin Isles emerges as the primary source.

How Platon used the Moldova-Russia Investment Agreement in the Stockholm arbitration court

In the financial sector, ComertBank is the largest presence of Russian capital, followed by some presence in EnergBank and Moldova-Agroindbank.

By the way, in the financial sector a company formally owned by Russian national Igor Benz - but de facto controlled by controversial Moldovan-Ukrainian millionaire Veaceslav Platon - triggered litigation against the Moldovan Government in the Arbitration Institute of the Stockhold Chamber of Commerce. This is the main reason why 40% of shares in Moldova-Agroindbank may not be traded. To be more precise, it is a complaint from Evrobalt LLC against the Moldovan Government regarding the alleged violation of the Moldovan-Russian Agreement on Mutual Protection of Investment, which was signed in March 1998.

Evrobalt LLC claimed that it had invested into the purchase of a 4.5% share in Moldova-Agroindbank (MAIB), with the approval of the central bank, but the latter found that Evrobalt LLC had acted concertedly with other shareholders in order to gain control over the bank. As a result, Evrobalt LLC has seen its rights and properties frozen and then it was obliged to sell off its shares in MAIB within three months.

FOREIGN TRADE: How embargos reduced from dependence upon Russia

The trade embargos and customs duties which the Russian Federation imposed in 2013 and 2014 reduced from the share of Moldovan products in the Russian market. If in 2012 on average 3 out of 10 dollars came from exports to Russia, in 2017 one 10% of exports were absorbed by Russia (254.4 million US dollars).

Fruit and nuts are the largest group of produce exported to Russia, though their price reduced 2.3 fold during 2012-2016. In 2012 Russia received almost half of these produce while in 2016 only 25%. Moldovan apples have remained the commodity most dependent upon the Russian market. In 2016 more than 89% of exports of apples, pears, and quince landed in the Russian market. On the other hand, compared with year 2012, trade reports for 2016 show that the dependence of Moldovan exports of table grapes, plums, apricots, and sweet cherries is somehow lower.

Pharmaceutical products rank second in the list of goods shipped to Russia, but readers should keep in mind that the largest part of pharmaceuticals are classic re-exports (92% in 2016), therefore their added value for Moldovan economy is minor. Another point is that re-exports accounted for 44% of total Moldovan exports to Russia in 2016.

Apples, soap, rubber, and meat – most dependent on Russian market

The exports of spirits and wines suffered the worst blow – 5.4 fold less in 2016 compared with 2012, from a share of 28.7% down to just 6.6%. Meat and organ exports dropped three fold over the same period. Aside from apples, other products with sales dependent on Russian consumers in 2016 were soaps, detergents, and washing substances, which accounted for 97.6% of exports. Rubber and rubber-made items followed (81.5%), while meat and eatable organs were next (84.7%).

It’s also worth mentioning that the curtailment in Moldovan exports to Russia isn’t just a consequence of embargos or customs duties, but also a result of the worsening economic status of Russia and declining trade between the two countries. For example, if in 2012 Russia imported apples, pears, and quince worth 1.24 billion dollars from Moldova, in 2016 it bought more than twice as less: 524 million dollars.

Natural gases dominate imports from Russia

The cold wind in Moldova-Russia relationships in the past few years not only downsized the Moldovan exports to Russia but also Russian exports to Moldova: from 15.7% in 2012 to 11.8% in 2017. Analyzing the top ten categories of products which Russia sells in Moldova we can see that the natural gases remain the Achilles Heel for the smaller country.

Mineral fuels are on the second position in the list of best selling Russian products in Moldova and account for one fifth of all exports to the tiny republic. Fertilizers were on the growing trend and accounted for around 80% of all imports from Russia. Other Russian commodities exported to Moldova are food preparations, nuclear reactors, caldrons, hardware and machines, appliances and mechanical devices, and parts for these items.

REMITTANCES: How Russia blackmails Moldova with migrants

The subject about the presence of Moldovan migrant workers in Russia has been systematically used by the Krelmin as an instrument of pressure on Chisinau and within internal political fighting. In spite of these circumstances the two countries have not signed an elementary agreement for social security for Russians who work in Moldova and Moldovans who work in Russia, ever since the Soviet Union broke up 26 years ago.

It's hard to count the exact number of Moldovans working temporarily in Russia, but it's certain that the trend is on the decline, if to believe Russian statistical reports. According to the Institute for Social Analyses and Forecast of the Presidential Academy for Economics and Public Administration, a Russian state-owned academic institution, the number of Moldovan nationals who lived and worked in the Russian Federation as of late December 2016 stood at more than 489,600. That was 71,000 less than in early 2015. It must be said that a part of these workers were already permanent residents of Russia, therefore the number of seasonable workers should be lower.

Remittances from Russia – from one billion down to 400 million

Remittances from Russia have always been large compared to the earnings Moldovans were sending from other countries. Russia accounted for more than 60% of all remittances for years and in 2012 this number almost halved from 65.6% down to 33.6% in 2017. In absolute figures, remittances in 2013 passed over one billion dollars and in 2017 they passed a little over 400 million dollars. This dramatic decrease happened on the background of the worsening economic situation in Russia and severing work conditions for foreign migrants.

Then the depreciation of the rouble hit the incomes of Moldovan migrants in Russia where they were paid in Russian currency. Not last – many Moldovans headed towards other, more attractive destinations. Even so, the expose of Moldova to the migration channel is still high.

In conclusion, although there are still many vulnerabilities, the economic dependence upon Russia has declined visibly in the past years. It may sound ironically, but namely the punitive measures which the Kremlin periodically imposed played the main role in this evolution. If the Moldovan authorities made good progress in such projects as construction of the Ungheni-Chişinău gas pipeline, Moscow would lose even more levers of influence on Moldova.

Anyway, Russia's lessons of economic suppression – if they are learnt well – are painful for a short period only, or at least in the medium term. Just look at the Moldovan wine-making sector, where more than 60 exporters are busy shipping wines to various destinations at present. After bankruptcies in chain in this sector, survivors focused on quality and are able to sell today their products in more than 50 countries. ©

Reusable Beer Bottles: Banned in Moldova. Mandatory in Europe

The legislating process in Moldova is distinguished by periodic adoption of laws or amendments in wild haste and/or without a deep impact analysis. This manner of legislation leaves behind inevitable collateral victims and sometimes entire sectors of economy are forced to suffer the consequences. The authorities later on get back with initiatives designed to fix the situation which they had created. Whether the damage emerges as a result of bad will or incompetence, it's up to our readers to decide.

Moldovan beer brewers are just one community to suffer the consequences of such legislation. In autumn 2017 the Parliament passed a number of amendments that were proposed by the Ministry of Economy and Infrastructure to the Law on Fabrication and Sale of Ethyl Alcohol and Beverages. The Ministry of Agriculture now tabled an initiative to repair the damages.

How the issue emerged

In September 2017, a newly-adopted Law #185 amends the Law #110-XIV from June 2000 and one of the consequences is the exclusion of a passage from Article 3: In compliance with all the changes [taking effect as as a result of this] are applicable on the fabrication and sale of beer, too. The purpose of the amendments was to bring more clarity on beer production and marketing, because the only specific regulation that had existed in this area was a Government Decision [#473 from July 3, 2012], spelling "Technical Regulation on Beer and Beverages Based on Beer."

However, once beer returned to the category of alcohol, this product fell under provisions that are alien to beer and the Parliament simply needed to amend more articles from the same law in order to exclude beer from the framework that was specific only for ethyl alcohol and strong drinks --- nonetheless, this didn't happen. As a consequence, the beer-makers woke up one day with a duty to comply with aberrant and useless norms, which harmed their competitiveness and created advantages for imported products. Small beer factories were being pushed out of business.

No more reusable bottles for beer

Under those changes, domestic beer-makers were banned from re-using glass-made bottles for beer, although this provision is specific only for alcohol with a longer cycle and the international practice has no such precedent; on the contrary, all countries encourage the use of beer bottles. The regulatory impact analysis (RIA) of the Ministry of Agriculture says that most European countries not only encourage the re-usage of bottles designed for beer but also makes it mandatory, given the short sales cycle – it cited the case of Germany, Norway, The Netherlands, Switzerland, Belgium among others. The beer made in Moldova in glass bottles is good to drink within one year after it leaves the production line.

Waste of money and energy

According to the ministerial RIA, in the case of the three large beer-makers - Efes Moldova, Bere Unitanc, and Beermaster - the share of reusable bottles to infuse makes up between 70% and 100%. Under the financial aspect, domestic beer-makers would have to increase the expenditure bill, given that the cost of new bottles is around 2.5 lei while the deposit cost is only 1.0 leu. There is also a delicate issue with the environmental impact.

The same document states that one beer bottle is good for up to six bottling cycles and the ban on reusable bottles means six times more waste. It also takes six more times electricity to produce beer. To understand better how much electricity reusable bottle save, RIA points out that "in one year, by using reusable bottles, Efes Moldova saves as much power as the city of Floresti consumes in 18 months."

Enormous environmental burden

Mold-Street asked the Moldovan Association of Beer Brewers (APBRM) about the financial and environment impact of the changes. Here is the association;s reply: „…with the simple placement of beer under the Alcohol Law, the repeated use of glass bottles and kegs becomes automatically impossible.” And it's not just about a financial burden for brewers – sometimes unbearable for small producers who may walk out of business – but also an enormous environmental burden, given the fact that Moldova is committed to enforce the EU Directives on package management. A large amount of bottles would become suddenly a large amount of waste and would thus jeopardize the recycling targets in the nearest future.

Millions of labels for garbage bin

Another measure that harmed the beer brewers is the obligation to change the labeling conditions as stated in the Law # 1100/2000, Article 17. The ministerial RIA suggests that producers prefer to print a maximum number of labels in order to benefit from discounts. Moldovan beer brewers have currently labels worth more than 3.5 million lei in stock and they won't be able to use them unless the law in effect gets any improvements. Otherwise they will simply have to throw all the labels away. For this reason, the Ministry of Agriculture suggests to enforce the new norms in 24 months after their publication, so that producers get enough time to use the label stock and prepare for the new labeling requirements.

Measure that cracks down on small brewers

Another condition that brings no benefit to any party – but is very expensive for producers – is the obligation to procure and operate electronic cash register machines – both for the production lines and for the bottling lines. As agriculture officials argue, this sort of record is valid and efficient for enterprises that produce ethyl alcohol and strong drinks; excises for these beverages are calculated per liter of absolute alcohol. But beer, unlike strong drinks, requires a record – and excises – in liters of finite product, not the alcohol content.

Therefore, if the obligation to use cash register machines stays for beer brewers as provided currently by the same Law # 1100/2000, and applying for a business license becomes automatically mandatory for them, all beer factories will have to shut down for a while in order to comply with the expensive procedure for electronic recording of every gram of ethyl alcohol in beer.

One such machine, according to various estimates, costs 300,000 lei. Between 3,500 and 5,000 lei is the cost of servicing of these machines. These technical and financial efforts bring no whatsoever added value for the state or the brewers. The measure only reduces the competitiveness of factories and pushes small brewers out of business.

APBRM, too, has found no relevance in the cash register machines in the case of beverages that are charged for excises based on the volume rather than percentage of alcohol. The association has welcomed the intention of the Ministry of Agriculture to improve the Law #1100. It also explained before the Economic Board of the prime minister that “beer brewery may not be regulated with a law designed for strong drinks and there's a regulatory miscarriage that badly hit the producers, especially the small ones.”

How much beer Moldovans consume

Speaking of the domestic market, local brewers cover almost 80% of the annual beer consumption; if we take as the basis the annual variation of production as zero, then the average consumption would be 113.4 million liters a year. In pints, this volume amounts to 226.8 million pints and compared to the official number of population older than 15 would be 77 half-a-liter pints or 38.5 liters a year.

It depends now how fast the authorities will move and whether they will support the initiative of the Ministry of Agriculture in order to repair the damage they had brought about. Beer brewers hope the notorious legislation gets new wordings and they continue business as usual based on “adequate regulations.” ©

Budgetary Miracle: Government Found 1.6 Billion Lei for Plahotniuc's Project

The Moldovan Government has found the necessary money for implementation of an initiative of millionaire Vlad Plahotniuc - "Good roads for Moldova", which provides for construction and repair of more than 1,200 kilometers of roads across the country in 2018. In fact, this money was earmarked already for this purpose in the national budget for 2018.

Mr. Plahotniuc, a controversial oligarch who controls the ruling Democratic Party (PDM) with an iron hand, says the project covers all communities irrespective of their political color. "At the [PDM] meeting we have analyzed which is the best way to support our Government and picked up a project that has all necessary resources to complete. Our final goal is to offer a new potential for growth in Moldova: good roads will help us modernize the countryside," the Democratic leader said on February 27.

1.6 billion lei for 1,200 kilometers

Two days later, at a special session that debated the oligarch's initiative, the cabinet of ministers showed a group of mayors and district chairmen the portions of roads and streets that were included in the reconstruction and repairs program for this year. "We shall put aside the resources that are necessary for construction and repairs of more than 1,200 kilometers of roads in rural areas. We have the ambition to complete this year by leaving behind the largest knitting of rural roads ever built in Moldova," Prime Minister Pavel Filip at that meeting.

Economy Minister Chiril Gaburici said in turn that the road rehabilitation initiative was one of the seven priorities of the Moldovan government in 2018 and it was "just a first step."

The program "Good roads for Moldova" sets out for the rehabilitation of around 1,200 kilometers of rural and regional roads that lie through 1,200 towns and villages. The total committed investments amounts to around 1.6 billion lei; of this 500 million will be taken from the Road Fund and 1.1 billion from the State Budget. According to the Economy Ministry's plan, there will be one single tender for each district to identify the contractors. Each contractor will be responsible for one administrative-territorial unit. The contracts are expected to get signed in May.

Where the money came from

At a closer look though, this super project which Mr. Plahotniuc presented as his is a banal distribution of funds from the 2018 State Budget; Minister Gaburici himself had announced it earlier. A week before Mr. Plahotniuc's presentation, Mr. Gaburici in a response to the no-confidence motion which the Socialist faction demanded in the Parliament said that the Government was planning to spend over 972 million lei for maintenance and repairs of public roads in 2018.

"For this year we generally plan to carry out activities designed to improve the road infrastructure within some 340 settlements, and for [for this purpose] as much as 500 million will be disbursed from the Road Fund for repairs of 280 kilometers. The remaining amount – 472 million – will be spent for maintenance services on 5,900 kilometers," the minister stated. Another 1.1 billion lei from the State budget will be used to reconstruct about 890 kilometers of local and communal public roads, as well as streets, Mr. Gaburici added.

A simple calculation shows that the money for all these services had been earmarked in the State Budget and that the ruling Democratic Part only decided how to spend it; normally such a decision must be issued by the Government in agreement with the local public authorities.

Official figures show that in 2018 Moldova might spend a record amount for the past decade for roads; nonetheless, converted in U.S. dollars, this sum is still below the expenditure in 2014. There's more: in recent years the Government had planned ever larger expenses for roads but failed in all major project due to faulty planning and bad management.

Governments admits having problems

In 2017 the Government literally obliged the mayoralties to sign up for administration of local roads – some of which existed on paper only – and the central authorities thus got rid de jure of their responsibility for the local infrastructure. The local authorities were warned that otherwise they would not receive any funds for roads within their jurisdiction.

Later the Economy Ministry released an analytical paper where it admitted that the distribution of funds for roads had been defective and unfair. Among the faults it cited 1) delayed formal approval of the program (june 20, 2017) and consequent reduction of the implementation period; 2) devolution of the local roads infrastructure to the local public authorities; 3) functional re-structuring of roads, alias the formation of regional roads; 4) cancellation of the tender for development of software for vignette collection from motorists (the bids were all disqualified); 5) cancellation of the tenders for road repair services because of the lack of sufficient bids. Many roads as a consequence have remained in bad condition.

Where 3.4 billion lei disappeared

Speaking of the sum for the project "Good Roads for Moldova", it is just a bit larger than the sum allocated for the same purpose in 2017. One conclusion is that the Democrats' 2018 initiative is an electoral trick rather than a project to improve somehow the disastrous state of Moldovan roads.

Not last to be said, at the end of 2017, former Economy Minister Octavian Calmâc, now advisor to the prime minister, promised the road building industry that next year "Moldova would be transformed into a genuine building site and the state will spend some five billion lei for the road rehabilitation program." The bulk of funds comes from the international partners however. The National Budget Law reads that the country will implement two road construction projects with financial coverage from international sources:

- *Road Sector Support Program, 2.4 billion lei;*
- *Local Roads Rehabilitation Project, 126.3 million lei.*

In other words, the international partners contributed one billion lei more for the roads infrastructure rehabilitation in Moldova and the Government of this country committed itself to. It is true that the Government periodically praised its own efforts in past projects with international funding in recent years and another truth is that many of those projects have not completed yet.

Official statistical reports say that Moldova's road infrastructure counts 12,719 kilometers, of which 87% are paved-surface roads; of these national roads count 3,669 kilometers and local roads count 6,834 kilometers. An overwhelming part of roads in Moldova are in bad or very bad condition; the country has been for decades among the countries with the worst road infrastructure. ©

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Moldova's Debt for the Electricity Supplied by Romania Is For Sale: 7 Cents For One Dollar

A promissory note for 17.04 million dollars which Moldova owes to Romania for the electricity supplied 20 years ago was for sale at a public tender in Bucharest. The debt rests with Moldova's state-run company Moldtranselectro, which is short of cash to honor it. A law firm, Muşat & Asociaţii - Restructuring & Insolvency SPLR, is the official bankruptcy agent for Termoelectrica, Romania's electricity provider that had to collect the money from Moldovans.

A price that is 14 fold lower

A published notice by Muşat & Asociaţii indicated March 23, 2018, as the day of tender, which was an English auction. There's nothing unusual with the tender, given that the debt has been for sale for four years already and the bankruptcy agency periodically invites bidders to claim the recovery rights. It is the price that catches attention at this promissory note: 1.19 million dollars for a debt of 17.04 million dollars, or 7 cents for one US dollar. This is 14 fold less than the original sum.

In despair, the Romanian agency has started publishing tender notices in the Republic of Moldova too. The 17 million dollars represents in fact a little bit more than half of the entire debt, which amounts to 32 million dollars. Moldova accrued it for the electricity its western neighbor had supplied in the period 1998-2001.

Another Romanian firm, Tital Total Group, dealt with the recovery of the remaining 15 million dollars. It also obtained a court enforcement order in Moldova in its effort to obtain the money from Moldtranselectro. Tital Total Group was issued the order after dozens of court sessions in Moldova during 2008-2016. In 2016 the firm filed for bankruptcy.

Romania rescued Moldovans from frost but Chisinau forgot to pay off

The story is this. Almost 20 years ago, in November 1998, the Moldovan Government asked the Romanian Government to furnish electric current and fill in the power deficit that incurred as a result of the Russia-controlled Cuciurgan Power Plant's decision to halt supplies to the right bank of the Dniester. What started as an emergency operation continued until 2001. The agreement was formally signed by Moldtranselectro company and Conel company, currently Termoelectrica. Under this document, Moldova had to pay off its debt by transmitting a state-owned oil importing and distributing company Tirex Petrol to the Romanian side, plus proceeds from the sale of power grids, coal, and other goods and services on Moldovan territory.

In reality, Moldova only paid less than 10% of its debt for Romanian electricity. Through complex schemes, Tirex Petrol ended up in the portfolio of a German company, for another debt, while the proceeds from the sales of three power grids were used to fill in the widening budgetary deficit of Moldova.

Contingent litigations

On March 23, 2004, the Commercial Arbitration Court of the Romanian Chamber of Commerce and Industry ruled that Termoelectrica was entitled to claim 34.3 million dollars from Moldtranselectro. Although the Moldovan side never disputed that ruling, during a long period (2003-2009) only 2.8 million dollars from the debt was paid. In early 2010 for example, the officially recognized debt stood at 32 million dollars, and included the interest commission. In April 2008, Termoelectrica sold the recovery rights for 15 million dollars to Titan Total Group, a private firm controlled by Romanian businessman Adrian Duman.

Termoelectrica said in 2011 that the very next month, in May 2008, it had asked a court to cancel the agreement with Titan Total Group, citing the latter's failure to comply with its conditions, but the presiding judge turned down the request. As a consequence, the Romanian firm filed for financial claims in Moldovan courts and battled in dozens of suits with the Moldovan Government. A number of courts awarded victory to Titan Total Group and issued enforcement orders for the Government.

From 15 down to 30 million dollars

As the time passed the financial claims of the Romanian firm increased too. In the last lawsuit in April 2016, the Moldovan Supreme Court of Justice rejected a ruling on revising another ruling from 2013. By that time, the amount which Titan Total Group expected soared from 15 million up to almost 30 million dollars – this amount included the interest arrears of 14.76 million. In 2016 Titan Total Group filed for bankruptcy after its creditor Ebicom SRL, a firm in Bucharest, had claimed a promissory note of 699,000 Romanian lei (3.6 million Moldovan lei) in 2011.

Moldova, a bad payer

According to Romanian website superrevizor.ro, the debtor contested the request for payment, invoking the fact that it had not accrued any arrears in taxes or wages, or other current financial obligations. Another argument was that Titan Total Group “was close” to recover more than 15 million dollars from the Moldovan state. “Not one official act proves that the company was close to get the money; instead its efforts had lasted for seven years in a row,” the Romanian news portal said.

Angela Morarencu, director-general at Moldtranselectro, declined to comment on the topic or the relationships with the Romanian company Titan Total Group.

Officials in the Moldovan Ministry of Economy and Infrastructure were earlier quoted as saying that the debt accrued from electricity supplies was an issue between two commercial entities and once one of them decided to sell off the recovery rights, this was undisputable. At the governmental level, neither the Moldovan side nor the Romanian side raised this issue for four or five years, even at the working meetings of the joint inter-governmental commission for economic cooperation. The Moldovan Ministry of Economy and Infrastructure, too, refused to comment on this topic.

Given that the governments in Chisinau and Bucharest avoid this subject in the formal framework and neither side has proposed a solution, the multi-million promissory note is changing hands of slick boys looking for an extra profit. Romania is currently the biggest bilateral creditor of Moldova. The latter’s failure to pay off a debt for strategic commodities supplied 20 years ago portrays the ex-Soviet republic as an unserious trade partner and erodes its financial credibility. ©

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Professional Army in Moldova – worthiness and costs

After a thorough review of the state of the armed forces in Moldova, the ruling Democratic Party (PDM) has decided to scrap the mandatory mature of the military service and upgrade it to professional. Such a reform would claim at least 10 billion lei in costs and some experts are critical of this initiative. PDM chairman Vlad Plahotniuc told journalists that the party asked in 2017 the Government to prepare a detailed study regarding the formation of professional armed forces and an action plan for this transformation.

Plahotniuc’s concerns

"The conclusions of this assessment - which is a result of joint efforts of many ministries, agencies, and experts in the given area Concluziile evaluării respective - la care au lucrat mai multe ministere, agenţii şi experţi în domeniu - confirmed the existing concerns: the conditions which the National Army provides currently for young recruits are not effective for a solida training and a decent living during the military service. “At the same time, it happens too often that many young men pay off in order to escape the military service whilst enrollment is unavoidable for those who don’t have cash to walk by,” PDM said in a press release citing the party leader.

Mr. Plahotniuc has called for a reform phased within a two year time and asked the Government to reduce the number of new recruits starting next autumn. Instead, he went on, the Government will hire professional military on contracts who will serve in the armed forces fully endowed and better trained. It will also solve out the issues related to logistics and remuneration in order to smooth the transition to a professional force.

The Defense Ministry on its official Facebook page supported the initiative and announced that some work has been completed in this regard. “The actions plan designed to build a modern, professional, and mission-ready institution is almost finished and will be tabled before the Government for approval,” the note reads.

The costs and risks

Neither the PDM nor Mr. Plahotniuc whispered a word about the costs of such a reform. A former defense minister though, Vitalie Marinuța, who supports the initiative, may know some figures. He told the Publika TV channel that the country needed to increase the defense spending, up to minimum 1% of the GDP within the next five years, compared to only 0.35-.040% which Moldova spent in recent years on military affairs. Mr. Marinuța, a US-schooled officer, cautioned over the cost assessment and terms of the army reform, reminding that a similar attempt in 2001 was buried before being prepared for its first public debate.

Moldova's GDP in 2017 amounted to lightly more than 150 billion lei (some 9 billion US dollars). According to Finance Ministry reports, the defense spending that year hit around 569 million lei, or 4% more than the precedent year. This is almost three times less than the former defense chief suggests.

On the other side, Colonel Andrei Covrig, former head of the General Staff, casts doubts over the need for this reform, warning that the country will run out of manpower is the event of war. He did not elaborate on this subject, but expressed concerns over the social burden for the state if the Government moves ahead with the initiative. "Let's assume we embrace as many as 4,000 professional soldiers. The question here is whether our state is capable of providing them a full social service pack. There's no answer to this question. They will come with their families, spouses, children, and we have to think about all these circumstances," the former head of the General Staff said.

Populist initiative contradicting regional trends

Igor Munteanu, a former Moldovan ambassador to the US, who currently runs IDIS Viitorul – a respected think tank, has described the idea to get rid of the mandatory military service as a populist measure. "I believe that the subject that is being discussed at this moment is pulled out of context; it is populist by nature. Many defense experts, civil society leaders, development partners might assure that a well trained and endowed army that is aligned to NATO standards would be more suitable to deal with the challenges it is designed for…

"Unfortunately Moldova does not belong to such a status; we don't really have professional military who are well built, well equipped, well paid, and well trained in compliance with NATO requirements or requirements of other defense and security organizations. Since we don't have anything of that, the reform would discredit the armed forces as an institution," Mr. Munteanu told the Free Europe Radio.

On the other hand, the initiative contradicts the regional trends, he added. "Look at what is going on in the region, where everybody has set on the military buildup track. Sweden reinstates its mandatory military service in January 2019, decided to open new bases, and begins educating its population in the spirit of mobilization and national solidarity; given that Russian troops are stationed in the Baltic region and Russian bombers fly nearby, Sweden feels threatened in spite of its neutral status or being a highly developed nation," the expert stated.

In his opinion, the decision to discharge the young recruits from the armed forces under the presence of a foreign army on national territory is "a gesture of total absurd… [which] bares the absence of elementary savvy and lucrative ideas."

In reply, Parliament Speaker Andrian Candu told a news conference that in the works on the initiative PDM took into consideration the experience of other countries, including Romania, which pursued a phased transformation approach before having a professional army in service. "We want a professional army, well prepared and equipped, with modern weapons and well funded, which would become a security generator, not a money waster. We'll provide our entire political support this such initiatives," Mr. Candu assured.

Moldova spends 11 fold less than Georgia for defense

Official statistics show that Moldova's defense spending has been on the increase track in the past decade but never exceeded 0.4% of GDP. In 2010 for example, the defense budget was 236 million lei, in 2013 it increased up to 336 million lei, and in 2015 it amounted to around 460 million lei. In 2018 the military will receive 629 million lei from public coffers (0.4%), which is 10% more than last year. It would need another one billion lei in order to reach the threshold of 1% of GDP, or around 10 billion lei within the next four or five years.

Even if Moldova makes a financial effort to increase the defense spending to at least 1%, as suggested by the former defense minister, it still won't make the country a military power. A published report issued by the Stockholm International Peace Research Institute says that Moldova's expenditures for weapons are among the lowest in the world, both in terms of quantity and as a share of GDP. In 2016 for example, Moldova spent on defense purposes twice less than Malta, a country that is 70 times smaller, and 11 fold less than Georgia, a country torn apart by secessionism and is comparable as territory and population with Moldova. By comparison, Romania spends 2% of its GDP on defense, Estonia 2.1%, Ukraine 3.8%, Armenia and Azerbaijan 4.6%, and Russia 5.3%.

The austere budget of Moldova's prevents new weapon acquisitions and its armed forces use mainly Soviet era machines and rifles at present, while the Defense Ministry is unable to cover even routine operations. The army modernization requires lots of resources and years of transformations – a mission impossible without extensive international assistance in logistical development, expert and manpower training, and supply of weapons and combat vehicles. ©

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Renewable Energy Law Gets into Force

The Law on Use of Energy from Renewable Sources entered into force in Moldova on March 25, 2018, following a round of postponed dates for enactment, to the joy of investors who would benefit from legislative incentive to build clean energy businesses. This law passed the Parliament vote in February 2016 and was set to take effect on March 25, 2017. Given that the country was not ready at that moment to comply with the measure, to cite the authorities, the lawmakers decided to adjourn its implementation for one year.

Adjournment for the sake of Government

The adoption and enforcement of a clean energy legislation was a commitment assumed by Moldova at the time it signed the free trade agreements with the European Union and with the EU Energy Community. The decision to wait with the practical application had been met with criticism in Brussels, which reminded the Government in Chisinau about its obligations.

The Energy Community Secretariat said in a published report that Moldova was committed in 2016 to write the rules for tenders in the case of renewable energy projects and to simplify the administrative procedures as well as the cost methodology for connection to transportation networks and power grids.

It also underlined the need to introduce sustainability criteria and adequate incentives in the bio-fuel regulations. Lack of progress in this area impedes the further development of the agricultural potential of Moldova, which should be thus produce bio-fuels for itself rather than rely on imports in order to achieve the 2020 objective of supplying 10% of needed energy to the domestic market in bio-fuels.

Passing rules five minutes before deadline

In spite of warnings from Brussels in late February 2018, Moldova had not been ready from the legislative or technical point of view for the clean energy business. "Out of all secondary regulatory acts, five were left into the responsibility of the Ministry of Economy and Infrastructure (MEI). Of these, one was approved in the form of a Government Decision, two were scrutinized by the National Anticorruption Center (CNA), another one is expected to arrive at CNA soon, and the last has been issued to the National Energy Regulatory Agency for review (ANRE)," State Secretary Vitalie Iurcu told a meeting of the parliamentary commission for economy, budget and finance on February 28, 2018.

Therefore, during the next month the Moldovan authorities hurried up to get mass production of backup regulations and decisions that would make the Law on Renewable Energy Sources functioning. Nonetheless, on March 25, 2018, Moldova enacted only the primary component of this law while the Ministry of Economy and Infrastructure has promised to obtain the Government's approval in a short time.

In early March, the Parliament passed several amendments related to the same law in order to bring more clarity to investors in the renewable energy sector and to adjust the national regulatory framework to the EU acquis on electricity and natural gases. At the same time, Moldovan laws now define the notions “contract fulfillment guarantee”, “offer guarantee” and “participation guarantee.” The participation guarantee fee for one kilowatt of installed power is limited to maximum 2% of investment and the participation guarantee fee may not exceed 10% of investment. Both fees are collected in the state budget.

On March 13, 2018, ANRE set up the regulated tariff for electricity supplied by the state-owned Energocom SA, at 1.63 lei for one kilowatt per hour, without VAT. ANRE director-general Tudor Copaci told Mold-Street.com that 1.63 lei is the average tariff for orientation for which all power producers will be obliged to sell electricity, including clean energy producers.

Projects of hundreds of millions of euros

The enforcement of the Law on Renewable Energy Sources will be welcomed by many investors with stand-by plans for Moldova. The French group Heliomed alone, for example, intends to invest around 100 million euros in the ex-Soviet republic’s energy sector. It has already rented two fields for a wind-mill farm totaling more than 100 megawatts. The law in question provides that investors with renewable energy projects that would generate electricity under a certain amount will be welcomed in accordance with the “first come, first served” principle. Those investors will be working under a same tariff for 15 years. In the case of investors with bigger financial plans the tariff will be set up at an auction.

The Government is most concerned about the stability of the domestic energy system. According to Călin Negură, head of the renewable energy policies at MEI, the authorities will open the internal market for renewable energy project on a gradual basis, via tenders, so that consumers pay the lowers prices and the system remained stabled. Moldova doesn’t really have power generating capacities of its own, he stressed.

Renewable energy covers just 0.4% of needs

One year ago, former economy minister Octavian Calmâc, now economic advisor to Prime Minister Pavel Filip, was generously throwing right and left optimistic forecasts for 2017 about the Moldovan energy sector and specifically clean energy generation. “In the area of renewable electricity generation in 2017 we are expecting the mobilization of significant financial resources, around 120-150 million euros, which will be invested into wind-power farms and photo-voltaic panel fields; construction investments as such are expected to start in 2018,” the official was quoted as saying at a business forum, among others.

Given that the adjournment has frozen the investment plans, MEI would not venture into new optimistic forecasts. Carosam Sud SRL, for example, a branch of Heliomed, started in 2017 construction and operation of a 60-MW wind turbine field near Opaci village of the Causeni District. Overall it plans to install 24 turbines. Another Heliomed-affiliated firm kicked off a similar project in the Şoldăneşti District, for a 40-MW and more capacity.

The French investors declined to comment on the adjournment of the renewable energy law implementation. ANRE reports show that Moldova produced only 17.8 million kilowatt per hour energy from renewable resources in 2016; this accounted for only 2.5% of the total domestic electricity production and less than 0.4% of the national consumption. Of all renewable energy, 78.7% was generated from biogas, 14% from wind, and 7.4% from solar light.

Unused potential

A study published by the International Renewable Energy Agency says that Moldova has a potential of renewable power generation of more than 21 gigawatts. This would be ten fold more than the entire electricity production in operation in the country at present. The prospects are brighter for sun light panels, which would give the country up to 20 GW capacity at the lowest capital cost. In 2010-2015 Moldova spent around 107 million US dollars from international donors and lenders for energy efficiency and renewable energy measures, but dependence on energy imports - especially Russian gases - has remained high. ©

Engines Yet in a Shopping List, but Railway Company Won't Be Able to Pay Off

In spite of triumphal reports, the biggest project to recondition Căile Ferate din Moldova (Moldovan Railways - CFM) is stepping on the spot. This state-owned railway corporation has been too slow in selecting a supplier of new engines and is unable to use a loan of 100 million euros for its recovery. The Auditors Court has found that CFM had paid around 560,000 euros (almost 11 million lei) in commissions for delayed expenditure of a loan from the European Bank for Reconstruction and Development (EBRD) and from the European Investment Bank (EIB) for the modernization of the Moldovan railway infrastructure.

Who blocked the loan agreement for two years

The loan was awarded for the acquisition of railway engines and the bureaucracy around the loan agreement started more than one year ago – and yet has not completed. The Moldovan Government and the EBRD signed the loan agreement on November 14, 2014 – or more than three years and six months ago. The Parliament ratified the agreement in 2015 and the national railway corporation was expected to receive the money for its needs, after signature of a direct agreement between CFM and the EBRD. This signature procedure has been delayed for two years.

CFM general director Iurie Topală has an explanation. "Calea Ferată a Moldovei did all it could to sign the agreement with the EBRD. The Finance Ministry blocked the signature procedure for almost two years, "he stated. His finger-pointing is not new; he said the same thing in summer 2017.

The Finance Ministry denies any wrongdoing. "In compliance with the loan agreement, CFM is the legal entity that is obliged to implement the engine acquisition and infrastructure modernization. It was CFM's competence to organize the necessary tenders for goods and services that are stipulated under this project as provided by the EBRD's purchase policies," the authority said in a formal letter for Mold-Street.com. It also said, "in compliance with the project documents, the financial resources from the EBRD account may not be transferred into the Finance Ministry's account – rather, the money shall be transferred to supplies directly as provided in the acquisition contracts which the EBRD signs and approves."

A reason to cancel a tender: exaggerate requirements

At the beginning of March 2017, CFM's director announced that five companies – from the US, Kazakhstan (US investment), China, Spain, and Russia – had submitted bids for the engine purchase tender. Mr. Topală said then that all five bidders has complied with the tender conditions and that a winner would be chosen within two months.

Two months passed, then half a year passed, and then one year passed, but the winner's name remained unknown. On March 26, 2018, the head of CFM announced that a new tender was held to buy the engines and that two companies had signed up for it. "In 18 months we could see new engines at Calea Ferată [a Moldovei]," Mr. Topală shared his optimism with the Auditors Court, which summoned him for a report.

As the number of bidders changed, so did the number of engines – 14 instead of 11 as requested in the first tender. Sources in CFM told Mold-Street.com that the changes emerged as a result of a conclusion that the EBRD's environmental conditions were too severe. "The conditions imposed on CFM said that the company was obliged to purchase engines that fitted the present-day environmental standards, which are not used even in the EU. They are pretty expensive for this reason. We insisted to let us choose among cheaper engines and thus buy more of them," the source explained. The acquisition process must be in compliance with the EBRD's rules for tenders for goods and services.

Half of sleepers for rails are damaged or faulty

While the tender procedures got delayed, the enterprise fared from bad to worse. In 2015-2016, CFM reported in losses more than 105 million lei and more than 53 million lei, respectively, auditors found. The number of passengers using CFM services dropped abruptly from 3.8 million in 2014 to 1.8 million in 2017.

Cargo services too declined, from 5 million tons in 2014 down to 3.5 million tons in 2016. The auditors also found that almost half of the rail sleepers are were damaged or faulty, and thus the railways were dangerous for train circulation. CFM director Iurie Topală says there are signs of improving finances at his company: in 2017 it reported a profit of 7 million lei, reduced the debt burden and the number of employees.

CFM risks to fail loan repayment

Some specialists are skeptical over CFM's perspectives. Oleg Tofilat, a former state secretary at the Ministry of Transportation and Road Infrastructure (MTID), sees a major risk about CFM's capacity of effective operation of the new engines the company plans to buy. CFM is in financial hardship and given the lack of independent auditing, it is difficult to assess what are the true problems this state-owned enterprise faces, he explained.

"The profit doesn't count as much as the cash flow. CFM is unable to pay wages to its employees and this strips the truth naked: they don't have enough money to cover a hole of 500 or 600 million lei with annual profits of 10-20 million lei; it will take decades until they gain a true payment capacity. Under the circumstances of financial shortage, maintenance of new engines – which are more expensive to maintain, even though operational costs are lower thanks to less fuel consumption – may be a problem. Evidently the machinery needs to be renewed, but it's also important to manage the modernization agenda in a proper way, otherwise things will go worse instead of getting better," the former state secretary at MTIC told Mold-Street.com.

Solution: breaking up the monopoly

The state of infrastructure is cited by Mr. Tofilat as a second major risk. "Train speed is limited on a good portion of the national railways to 15-20 kilometers per hour. As a result we have an abnormal operation of engines, overload and enhanced use of mechanisms. The solution is written in the CFM Reform Concept, which the Government approved in December 2017: Breaking up CFM two enterprises – one to operate the trains [and another to operate the infrastructure]. A tariff for the use of new engines would improve the finances of the new enterprise, raising enough money from CFM for maintenance, training, spare parts. Even though CFM can't cover these costs, we can learn how to use the engines. An independent operator of engines/and trains would collaborate directly with other firms and these firms in turn may buy their own trains and have private depots, smoothing thus the path towards a competitive market," Oleg Tofilat stated.

That being said, the main risk is yet to be explained, he added. If CFM files for bankruptcy, the payment obligations fall onto the Finance Ministry and this means an extra one billion lei in financial burden. Respectively, the Government will have to raise more taxes and duties from taxpayers and businesses.

"A separate enterprise would be able to sell the engines, rent them for international destinations, and perhaps there are other options. If CFM gets to operate the engines directly, they'll turn into crocks that will need even more cash in order to ensure their normal functioning. An example to learn from is the case of Servicii Transport Auto, a state-run motor company, which in 2005 purchased new vehicles from the Czech Republic and ended up with 100 million lei in debt to the Savings Bank, plus hundreds of kilos in wreck that once used to be motor vehicles," Mr. Tofilat said.

Railway traffic may get suspended

So how is CFM doing right now? Out of 139 existing engines, 134 are out of date and should be pulled out of service. More than 25% of the railway infrastructure is unfit for further use and needs capital repairs; if this issue doesn't get a proper attention, more than half of railways in Moldova will be unusable within five years and will have to be shut down.

CFM has generated around one billion lei in losses during the past 5-6 years, against a background of decreasing number of passengers – especially to international destinations – and decreasing revenues. The costs of rescue are estimated at 300 million euros.

The project for acquisition of railway engines and modernization of CFM was approved in 2014, for a total of 105 million euros, of which 50 million was the EBRD's commitment and another 50 million was was the

EIB's contribution. The remaining 5 million euro was a grant from the EU Neighbourhood Investment Fund. The first part of the agreement provides for the acquisition of 11 electric diesel engines for passenger service and cargo, as well as maintenance equipment. The second part of the project provides for the rehabilitation of railway infrastructure, in principal the portions linking Bender-Chișinău-Ungheni-Bălți-Ocnița and Bender-Basarabeasca-Etulia-Giurgiulești. ©

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Candu's Project that Breaks the Provisions of the EU-Moldova Association Agreement

At a session on April 4, 2018, the Government disapproved of a draft amendment from Parliament Speaker Andrian Candu, who sought to enforce a zero VAT liability for the importation of goods, hardware, tools, and services at the renovation of the Parliament building.

Devastated during the April 7, 2009, mass protests, the repairs and refurnishing of the legislature headquarters has cost Moldovan taxpayers so far around half a billion lei. Nonetheless, renovation is yet far from complete and the authorities keep spending public money to make sure that the elected representatives benefit from due luxury and enhanced personal safety. Sometimes the budget bleeds badly and truly important projects never get to materialize.

Working under privileged conditions

One of the initiatives Mr. Candu pushes for is likely to drain the budget of a sizeable sum, if Paragraph 13 (5) from the Fiscal Code Article 4 undergoes the proposed change. The legislature's speaker seeks to give the following wording to the given paragraph: The goods, equipment, furniture, and services designed for the renovation of the Parliament building in 2018 shall be delivered in Moldova under the condition of zero VAT; the imports shall be carried out under full exemption from VAT.

Mr. Candu also proposes to amend a number of paragraphs in Article 28 of the Customs Tariff Law – meaning that the customs duties for the goods and services for the renovation would be scrapped, too. He argued that "the existing legal norms are out of date" and that "the lawmakers need to return to the normal working conditions."

A week later, the Finance Ministry responded with a note of partial support for Mr. Candu's initiatives. The note, undersigned by the prime minister and some cabinet members, says the Government was lending its support for these amendments "only in the part related to exemption from VAT, customs duty and customs clearing regarding the importation of goods, hardware, tools, and furniture for the Parliament building's renovation, as well as for the anticipated payment up to 50% from the annual limit…"

Zero VAT contradicts the Association Agreement with the EU

On the other hand, the executive turned down the initiative to apply the zero VAT for the shipping of goods, hardware, tools, and services to Moldova, for the renovation of the Parliament building. Finance Minister Octavian Armașu argued that re-writing this fiscal norm would contradict the EU's Directive #2006. He referred to Directive # 2006/112/CE from 28.11.2006 regarding the common VAT system, which strictly excludes the zero VAT and imposed all member and associated states to make sure that their laws complied with the Directive. Moldova, too, has committed itself to abide by this Directive, among other obligations.

The note from the Finance Ministry also reads that the EU Directive restrict in an express mode the enforcement of VAT exemptions as a form of expenditure deduction and that the exemption from VAT for goods and services for certain public institutions are not regulated in domestic laws.

Contractor with financial problems

Readers should mind that at the end of 2017, after rectification of the budget law, the Government proposed – and the Parliament accepted – to spend 87.9 million lei for the renovation of the legislature headquarters, in addition to earlier financial endowment for the same purpose. The most expensive contracts worth a total of 130 million lei were awarded in the past two years to Glorinal-Imobil SRL, owned by Natalia Chirica.

Interestingly, Glorinal-Imobil SRL is no longer certified as a company allowed to carry our construction of buildings or construction engineering, or network and utility installation, or reconstruction, consolidation, renovation. According to data from the Public Services Agency, the authorities had withdrawn these activities from the company and its assets are under sequester. Glorinal-Imobil SRL and its parent firm Glorinal SRL owe to Moldova-Agroindbank alone more than 42 million lei.

Non-functional hardware and systems

What is worse, some hardware and systems integrated in the Parliament building – worth dozens of millions of lei – simply don't work. Take for example the electronic voting and registration system, which was installed in the session hall in 2013. Five years later it still remains a piece of decoration in the hall. An investigation carried out by the Investigative Journalism Center revealed that after having spent almost 13 million lei to get the equipment fixed, the authorities were looking in 2016 another 45,000 euros for a software ensuring the functioning of equipment.

Customs facilities as a source of billions in missed revenues

Speaking of fiscal facilities, an interesting fact is that both independent experts and Auditors Court officials have bitterly criticized such practices, warning that VAT exemptions, customs duty exemptions, and zero VAT enforcement are missed opportunities to earn billions of lei for the public coffers. A report issued by the Auditors Court slaps both the Government and Parliament for their generosity in granting numerous exemptions from taxes, excises and duties during 2011-2015, counting the prejudice at some 57 billion lei.

The largest part of facilities was granted per VAT for the importation of goods, and in 2015 the sum of exemptions amounted to 11 billion lei, which is 20% more than in 2014, the report reads among others. Auditors asked the authorities to assess the efficiency of exemptions on a regular basis, setting up the performance indicators and efficiency tracking for beneficiaries, similarly to the regime of loans and credits, while requiring beneficiaries to report their results. ©

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Prospering Directors, Secretaries, and Lawmakers with Pensions, Allowances, and Businesses Abroad

They hold high ranks, run prospering businesses, receive large wages, and own expensive cars and homes which they have earned throughout their careers in the public sector, and yet they receive allowance and other financial benefits from other countries, especially Romania or Russia. This story is about state secretaries, heads of national agencies, managers of state-owned enterprises, and even lawmakers.

Mold-street.com has screened a part of the property declarations submitted by members of parliament, ministers, state secretaries, directors of national agencies, and managers of the largest state-run companies, and we found that many of them get paid from other countries, such as pension benefits, child allowances, profit dividends, or purchased estates abroad.

Big wages in Moldova are not an obstacle to claim Romanian allowances

Radu Bezniuc, director of the Moldovan Civilian Aeronautical Authority, has declared more than 824,000 lei in salary earnings in 2017, his tax report papers suggest. His wife, who serves in the public sector, too, as a legal advisor to the head of the Moldovan National Bank, raised almost 600,000 lei the same year. The Bezniucs earn more than 118,000 lei a month (5,900 euros). They also sold a Toyota Corolla sedan for just 7,200 lei (!) and she receive almost 600 euros for her role in facilitating an energy efficiency financing project in the residential sector.

The Bezniucs also own an intra-city land plot, an 82-square-meter apartment, an individual home of 113 square meters, and a Toyota Auris hatchback, which they acquired in 2017 for 14,500 euros. In bank accounts they keep 252,000 lei and 700 euros. In spite of being among the best-paid public entity managers in Moldova, Mr. Bezniuc received in 2017 a monthly allowance of 168 Romanian lei for child care. In Romania he also founded two firms, which he declared non-working.

Dan Mitriuc, head of the national telecom corporation Moldtelecom, raised a child care allowance from Romania amounting to 2,400 Romanian lei. In 2017 Mr. Mitriuc earned a total of 461,000 lei in wages and his wife contributed another 130,000 lei to the family budget. The head of Moldtelecom also counts in peoperty an intra-city land plot, two apartments of 72 and 119 square meters respectively, a house of 116 square meters (worth 3.4 million lei). He also uses three cars – a BMW and two Toyotas.

The Romanian state also paid 2,016 Romanian lei in child care allowance to Anastasia Oceretnîi, state secretary at the Ministry of Health, Labor, and Social Protection in Chisinau. She also received 25,821 Moldovan lei from the Moldovan Social Insurance Company. Her husband and she earned more than 345,800 lei from various activities in 2017. Anastasia Oceretnîi also owns an intra-city land plot and a Kia motor car. She declared no private homes to own.

Ion Haralampov, director of Moldsilva Forestry Agency, and her husband earned together more than 381,000 lei in 2017. Additionally, he raised in benefits from the Moldovan Fiscal Service some 6,400 lei and 2,016 Romanian lei from the Romanian state. Mr. Haralampov also owns a Mitsubishi sedan, four fields, and two commercial/production halls of 44 and 456 square meters, respectively, which he obtained via donation. The Haralampovs live in an apartment of their own that covers 101 square meters.

Roman Cazan, deputy secretary-general of the Government, received 3,054 Romanian lei in allowances for three children. The Cazans earned in 2017 more than 2 million lei including his wife's earning as a notary officer, and his salaries in the managing boards of several state-owned enterprises. The sources of his earnings also include a financial award from the Public Property Agency after winning a property litigation with the state, parental care allowance for two children, child birth allowance for two children, social support indemnity, rental of peoperty, and private donations. The official also owns a motor car, two fields, one commercial hall, a 95-square-meter villa, and two apartments of 46 and, respectively, 98 square meters.

Democratic lawmaker Dumitru Diacov, too, received pension benefits from another country. Along with a total 440,000 lei in wage from his parliamentary activity, a pension, and rental of a building for the Democratic Party, Mr. Diacov received 150,000 roubles in pension benefits from Russia (equivalent of 42,000 Moldovan lei). The lawmaker also owns a field, an apartment, and a house, the real estates being either inherited by or donated to Mr. Diacov. He also has deposits of 256,000 lei, 4,300 euros, and 10,000 dollars, in Moldovan bank accounts.

On the other hand, Alexandr Comarov, a socialist member of the Chisinau Municipal Council, received 75,600 Ukrainian hrivnas (48,000 lei) a year in 2016 and 2017, in the form of pension benefits.

Shareholder at a Russian giant

Ruslan Malai, director of the Public Acquisitions Agency, is an associate and co-founder in 11 firms abroad. Ten of these he registered in the United States, all for sales of pharmaceuticals. The last one is Mechel PJSC, a giant metallurgical plant founded in 2003, and Mr. Malai controls 452 shares in it. Mechel in turn controls 11 enterprises across the Russian Federation, in Lithuania, Ukraine, and Romania, often via offshore companies.

This is the only mining & steel company in Central and Eastern Europe that trades shares at the New York Stock Exchange. Ruslan Malai has not revealed any dividends which the firms where he holds shares might had paid. He also owns a motor car, three apartments, and a garage.

Businesses abroad

Ion Voluța, director of Tutun-CTC, Moldova's largest tobacco and cigarette-manufacturer, is one of the best paid administrators in a state company; his annual wage benefit amounts to 617,000 lei. The manager also develops private businesses in Moldova and in Romania. He is associate and administrator of Astral Construct SRL in Moldova and Conlucart DP Impex SRL in Romania, both firms being specialized in road building. Mr. Voluța owns half of the Romanian firm, which counts a statutory capital of 10,000 Romanian lei. Ion Voluța also owns a construction field, a house, an apartment, one garage, and three motor cars. In 2018 he borrowed 30,000 euros and the debt is due to mature in 2025.

Moldovan lawmakers are not prone to doing business as well. Democrat Marcel Răducan for example is a shareholder in Aviromprod Romania SA, which he ran in the period 2001-2005. This company was a wholesaler of agri-food and strong drinks and is currently out of business. Mr. Răducan also controls 907 shares in Moldova's largest sweets-maker Bucuria, 200 shares in the chicken plant Avicola Vadul lui Vodă SA and 100% of the 5-million-leu worth of Moldprodinvest SRL.

The investigative portal RISE Moldova said earlier that Mr. Răducan had used Moldprodinvest SRL in a number of real estate transactions and in the takeover of more than 70% of the cereals collector Rediul-Mare. Moldprodinvest SRL in turn controls the Budapest Trade Center in the capital and a flower market in front of this center. Mr. Răducan owns five agrifields which are being leased and lives in a 412-square-meter mansion he rents probably from himself. In 2017 he received donations totaling 6,700 euros from his son Gicu Răducan.

Another Democratic lawmaker, Nicolai Dudoglo, is, too, involved in a foreign business. He controls 10% of Drongo KTF, a Budapest-based wood trade company (worth 65,000 euros). His wife founded an individual enterprise called Tatiana Dudoglo. The Hungarian firm is managed by Pavel Dudoglo, his brother who lives in Hungary. By accident or purposely, Nicolai Dudoglo mispelled the name of his firm in Hungary in the 2017 property declaration. He has posted no dividends from Hungary. The Democrat owns three motor vehicles, two apartments, two homes, an indoor and seven fields.

A third Democrat, Vladimir Andronachi has declared a foreign firm in his possession. His wife Nadejda Andronachi is the sole founder of WB Addict SRL, a trading firm in Romania. In Moldova the lawmaker also has shares in Agrotehnica SA and his wife is the founder of two more firms - WB District SRL and Expert-Comerț SRL. The latter owns Victoria Leasing SRL, whose statutory capital amounts to 7.6 million lei. Mr. Andronachi also owns two motor vehicles, one field, two apartments of 71 and 218 square meters, respectively. Two also owns two commercial indoors which earned him more than 2.7 million from rents in 2017.

Ion Apostol, a Liberal, also owns a firm abroad. Aside from Optimal-Impex SRL, a domestic trading firm, the lawmaker and his business partner Mihail Grinșpun co-own Grinap SRL, a fuel trader. It was founded in 2012 in Vsevolozhsk, a town in the Leningrad Region of Russia. It is managed by Alexandr Nerike. Official reports show that the lawmaker had received no dividents from that company in 2017. Ion Apostol also declared a field, an apartment, and a motor vehicle.

The state secretary at the Ministry of Economy and Infrastructure, Vitalie Iurcu, and his wife Angela Iurcu are business partners in three firms outside Moldova. In Hellis & Partners Imobiliare SRL (Romania), which she co-founded with Alexandru Vîlcu, Mrs. Iurcu owns half of the 10,000-leu real estate agency. Another Romanian firm where Angela Iurcu is an associate is called Zablaului Residence SRL, which is a construction firm for residential and non-residential properties. In 2012, before filing for the registration of his first firm in Romania, the state secretary paid 152,000 Romanian lei for an an agricultural field of 2.3 hectares.

Vitalie Iurcu is also a 45% associated owned in Helencom OOO in Russia, which deals with the trade of wood materials for construction and fittings. Although all his firms have been active, he has not posted any dividends for 2017.

Properties abroad

Democratic lawmaker Petru Știrbate owns several estates, including two apartments in Romania. In Moldova he drives three motor vehicles of his own, a boat, five fields, a 173-square-meter home, and three apartments measuring 27, 49, and 62 square meters. The last two apartments are located in Romania and were valued at 49,000 and 60,000 Romanian lei, respectively. The smaller one was acquired in 2017.

The head of the Competition Council, Viorica Cărare, too has some properties in Romania. As the spouse of a Romanian university lecturer from Sibiu, she shares ownership of a 85-square-meter home in Romania. A part of the family money is deposited in Romanian banks. In 2017, the official sold two fields and a home in the town of Durlești, near Chisinau, for 1.2 million lei, but then acquired a mantion of 295 square meters for 2.1 million lei. Also in 2017, her husband purchased a new Toyota car for 130,000 Romanian lei. Last year, Mrs Cărare borrowed 320,000 Moldovan lei and 112,000 Romanian lei.

How law cracks down on functionaries who provide untrue reports

In officials or public service functionaries breach the rules for declaration of properties and personal interests, they are liable to a number of administrative and civil code sanctions:

- *A fine between 1,500 and 3,000 Moldovan lei (150 euros) for late submission of the declaration of properties and personal interests under the current laws;*
- *A fine between 3,000 and 4,500 lei for the failure to submit the same declaration;*
- *A fine between 3,000 and 4,500 lei for the failure to submit the declaration from another family member.*

This screening above reflects the official information which the above-named persons had submitted to the relevant authorities under their legal obligation to do so, and their reports might be incomplete. The real revenues and financial benefits of Moldovan public dignitaries as well as other public service functionaries are probably hidden deep inside the confidential reports of offshore jurisdictions or run by interposed legal representatives. ©

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Budgetary Shortage or Why 29 State-Owned Companies Shall be Exempted from Dividend Payment

The Government has prepared a draft decision that would exempt 27 state-owned enterprises and two joint venture with public capital from the payment of dividends and other earnings from 2017 to the public budget. Overall, the exemptions would cover more than 100 million lei. The reason this measure is required, argues the Ministry of Economy and Infrastructure, is to use the money from unpaid profits for investment in enterprise production, with mandatory capitalization (alias increase of statutory capital) or coverage of losses from previous years. Many of these enterprises had provided services and funded governmental projects, but none was paid after all.

Budgetary shortage

Take for example 24 enterprises of the state forestry corporation Moldsilva. The ministry said in a justification note that forestry enterprises had planted trees on wide areas in an effort to slow down the degrading of soils, complying thus to the National Plan for Forestry Expansion for 2014-2018.

Moldsilva confirms that this kind of work had been done, on the expense of its enterprises and the payments were expected from the National Environment Fund, from the State Budget, and or other sources. From the

National Environment Fund alone it expected 28.66 million lei. According to Moldsilva management, it had filed a round of requests for reimbursement but the Government refused to pay and cited “the lack of money.” In addition, forestry enterprises had provided trees for the National Planting Day, for participants, while the authorities only covered a small part of expenses. For this reason, the ministry specified, these enterprises will be exempted from paying dividends per 2017’s profits.

Waste of public funds for afforestation

Whether these enterprises earned any profits in 2017 is an open question, like is the question whether they will be able to cover all expenses for current governmental projects. Interestingly, Moldsilva enterprises were exempted from similar payments in the past years too and an Auditors Court report for 2014 found that they were liable for fines, one of the reason being “the waste of public funds for afforestation and faulty management of resources.” A report from the National Anticorruption Center found last year that the same enterprises had failed to reach their activity goals even though being exempted from payments.

Railway corporation is short of cash and Radiocomunicaţii is busy crafting digital TV

Other three state-run enterprises to fetch exemptions from 2017 profit sharing are Calea Ferată din Moldova or CFM [railways corporation], Poşta Moldovei [post service] and Radiocomunicaţii [radio wave dispatcher]. According to CFM director Iurie Topală, in 2017 the railway corporation earned around 7 million lei in profits, following a period of losses over the previous years. “This isn’t actually a big sum,” he noted, adding that CFM is currently looking for funding for modernization as both rails and carriages have exceeded their lifespan and are no longer usable.

Radiocomunicaţii in turn is handling the transition to digital television in Moldova and needs around 1.6 million euros for this program in 2018 alone. In 2017 it posted a net revenue of 6.4 million lei (320,000 euros). The Ministry of Economy and Infrastructure says the profit this company posted did not meet the criteria for minimis assistance and did not require the company to notify the Competition Council. Radiocomunicaţii would keep the money in order to provide free of charge convertors to needy information consumers, the ministry specified.

Modernization of post service

In the case of Poşta Moldovei, the authority uses the same argument – need to modernize and develop the infrastructure of this enterprise and its post office across the country. It currently operates a network of more than 1,200 offices and agencies in 1,500 locations, and it employs more than 5,500 people. Sixty percent of its rural offices are in poor physical conditions. "A majority of indoors of these postal offices are located in buildings that were erected during 1960 -1980 from construction materials with low durability and many were never renovated while a part of them have their key elements deteriorated such as roofs, floors, or walls of resistance," the Ministry of Economy and Infrastructure explained.

Also, a large part of rural post offices and some urban offices lack a heating system and have to use an electric relay, which generates additional costs. Very few rural offices are endowed with security systems, which are required due to large amounts of money managed in those offices, or fire prevention systems, it continued.

Poşta Moldovei was quoted as saying that in 2014-2017 it used 42.4 million lei from its own earnings to renovate, adapt, or modernize 48 offices, and it repaired more than 122 postal buildings during the same period. The ministerial note says no word about the profits the public postal company earned but compares with other countries that subsidize this sector. "For example, the French Government compensates La Poste for the low tariffs it charges for the distribution of newspapers. In the United Kingdom the Government subsidizes Royal Mail for maintenance of rural post offices. Across the CIS, Russia subsidizes the Russian Post Service and Azerbaijan subsidizes AzerPost," the ministerial note reads.

Debts of hundreds of millions – and loans from banks to pay dividends

There are also two joint stock companies in the list in which the state controls a part of shares: Tracom SA and

RED Nord SA. The argument which the authorities use in this case isn't different – modernization. RED Nord SA is a power grid company based in Bălţi that distributes electricity in northern Moldova. It will grab the largest part of exemptions. According to preliminary estimates for the financial year 2017 RED Nord will post a profit of 120 million lei, of which 65 million is expected to be flown into the national budget in the form of dividends.

However, after its merger with RED Nord-Vest in 2017, another state-owned power grid company, RED Nord has inhaled a big deal of debts. It owes almost 126 million lei towards Termoeletrica alone and courts already issued executive orders for forceful cash withdrawal. Bank accounts may get blocked at any moment, the Ministry of Economy and Infrastructure warned. At the same time RED Nord borrowed more than 26 million lei from a bank in order to pay dividends… if this is the right wording for the operation.

RED Nord is likely to go bankrupt

But that's not all - the grids' attrition has climbed up to 60% while the company had failed to pay off 20 million lei for past renovation and repairs or replacements at the end of 2017, the ministry revealed in its argumentation to let it keep a part of the profit from 2017. "Depriving the enterprise from its working capital may harm its capacity to honor financial obligations towards electricity suppliers, subcontractors, banks, or state budget," RED Nord management was quoted as saying in the ministerial note.

By the way, there's little knowledge of the fact that RED Nord was in hardship to fulfill its 2017 investment plan because of earlier debts. The investment commitment of the enterprise would not cover the costs of renovation of its power grids and failure to renovate all grids at a time exhausts the equipment even faster, thus generating complaints and defects on a permanent basis, the note says further. But well, in spite of this financial disaster at RED Nord, the national energy regulatory agency ANRE lowered the electricity bills by 6.0-8.5% for about 185,000 consumers in late 2017; RED Nord neither objected nor welcomed that decision.

Tracom queues for governmental support too

The industrial park Tracom is next in queue for governmental support. The request for support is quite interesting if anyone decides to read it: "… Until the actual moment, the resources allocated from the state budget for creation of the technical and production infrastructure of the park have been insufficient."

Tracom management claimed it invested more than 35 million lei from the park's earnings in infrastructure development and expects a profit of 9 million lei from its business operations in 2017, mainly as a result of indoor sales for resident firms. Tracom will continue selling indoors to firms, most notably in a production bloc that covers 30,000 square meters. It intends to spend the earnings on reconstruction of the administrative building and other production indoors. Only in 2019 the Government would be able to ask for dividends.

The practice of exemption awards isn't much different from the new initiative. The outcome was often contrary to expectations but this didn't stop the Government from relying further on this practice. In 2017 the National Anticorruption Center said in a report filed on a similar initiative that the authorities had failed to set up any rules on responsibility or penalties for breaching the conditions of exemptions or using the earnings for other purposes than agreed previously. ©

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Government Turns Down Investors' Proposal: No Foreigners Allowed Owning Agricultural Land

Foreigners and stateless citizens will have no change in their status regarding the ownership of agricultural land or forest areas in Moldova, according to the new Land Code. The document, which has been debated in the ex-Soviet country for two years and only recently obtained the shape of a draft law, says that private ownership on agricultural fields and forests covers only Moldovan citizens and legal entities registered in Moldova.

Foreigners, obliged to sell up their agri-fields

"Foreign citizens and stateless persons may not obtain any private ownership rights over agricultural land or forests, otherwise they will face sanctions of getting their [ownership] agreements null and void. In the case of heirship, they are obliged to sell up the land in question within one year," the document reads. If, for one or another reason, that land remains in foreign property beyond this deadline, the local public authorities must take action to acquire it at the price regulated by laws while the owners loses the right to hold it in continuation.

Denial of property rights – an anachronism

The new Land Code, which expects to get approval in the Parliament, is a clear response to repeated requests from foreign investors to liberalize the land market in Moldova. In 2017, the Foreign Investors Association (FIA) complained that current Moldovan laws and regulations regarding land ownership represented serious impediments for investment in agriculture, which is the economy's largest sector, given that foreigners were interested in developing this sector.

"Foreign investors recommend, and consider it rationale to amend the legislation (art. 6 of Law no. 1308-XIII of July 25 1997 on the normative price and sale and purchase of land procedure) in order to repeal the provisions which limit the sale-purchase right of farmland by legal entities, whose share capital includes foreign investments," FIA's White Book 2017 says.

FIA president Alexander Koss stated that this provision was an anachronism given the fact that many Moldovans held double or triple one citizenships and that there existed plenty of methods to round the law. "For example, the provision that denies foreigners the right to own agricultural land. It is a bad provision. We all know that there are many possibilities for a foreigner to hold ownership on a farm field. Our estimates show that around 15% of agri-fields in Moldova currently belong to foreign citizens. Given this fact, it would be a normal act to legalize this process," Mr. Koss said. In his opinion, foreign ownership on agricultural fields would serve as a strong incentive for development of a civilized land market and would attract more money in the agricultural sector.

Why foreign investors avoid agriculture

Official statistical reports show that direct foreign investments in Moldova's agriculture are close to zero. Indeed, there are numerous "gates" for foreigners to get legal ownership on farmland. One such solution is to set up a local company in association with a Moldovan citizen. Although such methods carry a number of risks including court litigation or loss of investment, a bunch of Cyprus-based investment funds, for example, have found legal solutions to by pass by the law. Other foreigners simply acquire the Moldovan citizenship to open up the perspectives in the land market.

Others are not as lucky. Look at the case of Zbigniew Piotr Grot, an American citizen who got stripped out of money and farmland in Moldova and consequently has sued the Government in the International Center for Settlement of Investment Disputes, a World Bank arbitration institution.

Moldova recently passed a citizenship-for-money law that allows foreigners to claim Moldovan citizenship in return for investments.

"Forbidden fruit is ripe!"

All Moldovan Governments argue that the liberalization of the land market is a sensitive issue and unacceptable especially for rural residents who fear that they would lose the only source of income. The current cabinet of ministers is no different on this question: "One the one hand, we understand these constraints, which are sensitive and derive from our past. I believe that Moldova is ripe to raise again the issue about land ownership and liberalization of the land market for foreigners," former Deputy Prime Minister Octaivian Calmâc was quoted as saying in September 2017. Mr. Calmâc assured the public that no changes in legislation were in the working in 2017-2018 and that the subject remained a taboo for the time being.

However, this subject had been pulled out for debate on several occasions in the past. In 2010, for example, the Agriculture Ministry proposed to lift the ban on sale and purchase of land in the case of foreigners. The minister at that time, Valeriu Cosarciuc, suggested that foreign investors could become land owners by creating food processing enterprises and that they could count on maximum 500 hectares of farmland to buy.

The new Land Code is justified because the actual Code - in effect since December 1991 – has been amended several times and still "lacked coherent, clear, or predictable norms," according to an explanatory note. The new wording sets up a new regulatory framework that is adapted to the current-day and future realities, the Agriculture Ministry said.

Who is the biggest land owner in Moldova

As of January 1, 2017, the territory of Moldova officially covered 3,384,600 hectares, of which farmland covered 2,499,800 hectares (73.9%), according to a Land Affairs and Cadastre Agency paper. The Government and the local public authorities are the biggest land owners in the country. On the same date, public property land accounted to 782,900 hectares (23.1%). Another 706,300 hectares (20.9%) belonged to the administrative-territorial units. As much as 1,895,400 hectares (56%) was in private property.

Agricultural crumbling dominates Moldova

Official data also show that Moldova's agricultural sector is dominated by the crumbling of land. The largest part of farmland – 754,169 hectares (37%) – is worked by 35,545 limited liability firms and around 100,000 hectares are owned by them. Interestingly – and sadly – only 38,785 hectares out of total 654,000 hectares on lease are being leased for more than three years.

There are also more than 351,200 farming households, which work around 515.600 hectares (25.3%); one household works on average 1.5 hectares. One third of households work less than one hectare of farmland and almost 57% of households work between one and five hectares. As many as 754 farms work between 50 and 100 hectares. The remaining 239,724 hectares of farmland was worked and/or owned by 799,850 individuals, on average 0.33 hectares per person. Moldova does not have clear statistical data about the structure of ownership on agricultural land or what fields are owned by foreigners directly or indirectly. ©

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Government will Spend 2.6 Million Lei More in Dispute With American Investor

The Moldovan Government has decided to spend the equivalent of 127,000 euros in commission for KPMG Advisory SRL, which the Justice Ministry selected to prepare an economic-financial expertise paper for the legal suit which three foreign companies had filed against Moldova. In spite of the fact that the litigation wasn't news for the authorities, yet the money will be disbursed from the reserve fund, not from the state budget. The Justice Ministry signed a legal defense contract with KPMG Advisory SRL on November 6, 2017 – that is long before adoption of the national budget. The dispute against the Moldovan Government has been brought into courts by Mr. Zbigniew Piotr Grot, and his affiliated firms Grot Cimarron LLC, Laguardia USA LLC, and ICS Laguardia SRL.

A litigation of millions

The litigation with Mr. Grot and his firms absorbed earlier around 235,000 euros (4.8 million lei) and new invoices arrived at the Justice Ministry at the end of 2017. No resources foreseen in the budget for 2018. Zbigniew Piotr Grot, Grot Cimarron LLC, Laguardia USA LLC, and ÎCS Laguardia SRL filed the legal suit against Moldova at the International Center for Settlement of Investment Disputes (ICSID), a World Bank arbitration branch, on March 21, 2016. It is not clear from the ICSID website what is the amount in damages which the American investor of Polish origins claimed from the ex-Soviet state. Sources close to the case say the issue was worth 10 million dollars.

The first commission for services (235,000 euros) was shared between Austrian legal consultancy Schoenherr Rechsanwaite GmbH and Moldovan law firm Vladimir Iurkovski. The Justice Ministry, which acted on behalf of the Government, said: "During the review of the case [in the US arbitration center] our lawyers underlined the necessity to appoint a quantum expert who would write the conclusions regarding the assessment of the material damage which the plaintiff has asked."

The Government was obliged already on November 13, 2017, to submit its own conclusions on assessment of damage. The Justice Ministry stressed in the expertise paper that the defense side needed an internationally-known company with experience in cases similar to Moldova's. "In international courts and arbitration institutions, the name of experts hired in the settlement of disputes is very important, and in some cases it is crucial. Therefore, for the sake of credibility, quality, and value of expertise that are required to defend the interests of the state, it is highly recommended to select a company with international fame," the ministerial note reads.

American investor who got screwed in Moldova

What the Justice Ministry does not say is how the American investor was literally screwed in Moldova, by business racketeers in tandem with local public authorities in Floresti District, and judges. In year 2019 ÎCS Laguardia SRL, a limited liability controlled by Zbigniew Piotr Grot, leased agricultural fields from owners in the communes Vărvăreuca, Roșietici and Coșernița – all in Floresti District. In February 2011 a representative of Laguardia SRL asked the mayors from these villages to register the lease contracts so that the investor could start working the land. However, in March 2011 the owners notified the mayors and the firm of their intention to terminate the contracts.

The local authorities of Coșernița and Vărvăreuca acted to terminate the contracts between local owners and Laguardia SRL. During the same period the mayors registered new lease contracts for the same fields with the same owners. The new lessee was a domestic company called Bio-Alianta SRL. Laguardia SRL says the decision of the local public authorities to award the contracts to Bio-Alianta SRL deprived the American investors of the rights provided in the initial contracts and inflicted a significant damage to the company.

Attempts to dissolve Laguardia

The investor had sought justice in Moldovan courts and even filed a complaint with the Higher Council of Magistrates. When Mr. Grot used up all legal ways to obtain rightful treatment from the Moldovan judiciary system, he turned to the CSID. The Moldovan authorities meanwhile kicked off a number of legal procedures against the American investor.

One of these is the decision of the Court of Appeals to file for bankruptcy of Laguardia, at the request of the Customs Service and a domestic creditor, with the purpose to dissolve the firm in Moldova in a simplified way. The authorities say the procedure intended to shut down the firm in a rapid procedure had nothing to do with the pressure related to the dispute in the international institution.

Moldova – like Venezuela – refused to pay arbitration costs

Although apparently the case has a minor importance in the domestic business landscape, it already produces negative effects for Moldova. The Government, instead of seeking an amiable settlement, poured oil into fire by trying to shrink from its obligations at the ICSID. The Justice Ministry, which represents Moldova in this litigation, has refused to cover the mandatory pre-trial costs – in clear violation of its obligations as part of the ICSID Convention that Moldova is part of. The fees by the way are not high and therefore may not be considered a plausible reason for rejection. By analogy, only Venezuela and Argentina had used similar tricks in the past.

Gleason Wells lawyers who represent the US investor claim that Moldova was "trying this way to block the arbitration process by letting the costs grow and forcing our client to pay as much as possible." According to the rules, arbitration procedures may not continue unless all ICSID fees and arbiters' fees are paid off. "The Government's behavior in this arbitration case, especially the violation of the ICSID convention by refusing to honor the fees… is: 1) harming the interests of the country in general; 2) harming the country's efforts to create a healthy and sustainable economy; 3) harming the country's efforts to attract foreign investments; and 4) unprofessional. The Government's conduct isn't only a violation of an international treaty about cost-sharing but also a disregard for the fundamental principles of international arbitration in terms of investments," Coren Hinkle of Gleason Wells PC told Mold-Street.com.

The Moldovan Justice Ministry has explain its abstention from paying the ICSID fees by pointing out to "a complex procedure for cash allocation and time constraints established by the ICSID Convention." It did not answer however how it was able to find more cash for lawyers. Taking into account the fact that the US investor was drained out of money and assets in Moldova, this tactic may work and the shortage of money could force Mr. Grot to drop the case.

US suspects Moldova of violation of international treaties

The US Department of State has paid attention to this case and its representatives have had a number of meetings with Moldovan diplomats. "Analyzing the latest development, in particular the stance of Moldova and the failures of its Justice Ministry to take action, the American side suspects Moldova of violating multilateral and regionl treaties on investments, where the United States is part of," the Moldovan Foreign Ministry said in a memo.

The Department of State last year announced its intention to let its officials seek the documents and minutes of the arbitration process and get in touch with Gleason Wells lawyers. An audition that is part of this process was held in December 2017 in Vienna, Austria, with the participation of the lawyers from both sides, as well as experts and witnesses from Moldova.

What is ICSID

The World Bank founded the ICSID for the settlement of disputes between governments and foreign investors in matters of investment. It is a place where foreign investors go to seek compensations for violation of their rights got by the government of a host country that is part of a bilateral or multilateral treaty on protection of foreign investments.

To ask for ICSID services, plaintiffs must have a solid case and hundreds of thousands of dollars for lawyers. Moldova signed the ICSID Convention in 1992 and ratified it only in May 2011; a month late the treaty took effect in the ex-Soviet state. ©

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How E.U. and Moldova Rescue Transnistrian Economy

Transnistria's exports in the first quarter of 2018 increased by 45% up to 184.2 million dollars, the secessionist republic's statistical reports claim. This spectacular advance is owed mainly to the 2.5 fold growth of exports to European Union countries, the region's customs department said.

EU accounts for 45%, Russia just for 11%

The share of absorption of Transnistrian exports by the EU hit 44.7% of the total in the first quarter of this year, compared to 29.4% during the same period of last year. This result is a consequence of the expansion of the DCFTA benefits for companies located in the eastern region. Importantly, the official figures released by the breakaway enclave's customs authority refute the affirmations of Transnistrian leaders and Russian media that the region had been under a heavy economic blockade between Moldova and Ukraine. To be able to export its goods, Transnistria-based businesses have to register with the relevant Moldovan authorities.

The main two destinations for Transnistrian goods are Romania and Poland where 62% of all shipments to EU markets are landing. Exports to Romania increased 2.3 fold up to 29.8 million dollars (a share over 16%) and exports to Poland increased 13 fold up to 22 million dollars (a share of 12%). The leap originates from the 4 fold increase of exports of metals and steel commodities to a record high in the past decade – 84.5 million dollars or 45.8% of aggregate value. Almost two thirds of metal exports from the region headed to the EU. At the same time, Transnistria's exports to the Russian Federation accounted for only 11.4%, in spite of a 65% groth up to 21 million dollars. Overall, the region exported goods worth 22 million dollars to the Russia-controlled Customs Union during the period January-March of 2018 – even less than in Poland.

With Russia in words, and business with the EU

The region's leadership meanwhile continue to advertise Transnistria's "special relationships" with Russia. Breakaway president Vadim Krasnoselsky claims on various occasions that the enclave would perish without Russia. Transnistria has even tabled a package of investment opportunities for Russian companies in return for around 60 million dollars.

On the other hand Transnistrian statistical data show that the region is increasingly opening up for trade with the EU. The regional government has amended a number of laws to the sake of trade compatibility, such as removal of customs duties (which were replaced with excises) and adoption of a new customs code.

Sergey Melnichenko, an economic expert in Tiraspol (Transnistrian capital), says the new customs code is "largely compliant with the requirements which the European Union put forward for continuation of trade with Transnistria." Mr. Melnichenko said in an interview for the Free Europe Radio station in Chisinau: "It is obvious that in economic matters Transnistria is trying to diversify [its relationships] and it is interested in trade with all potential partners including the EU. For now we don't have any critical observations in this regard."

Moldova, "main market" for Transnistrians

The main market for Transnistrian exports, during the first quarter of 2018, is right-bank Moldova, which absorbed 38 million dollar worth of goods; this is 28% less compared with the same period of 2017. The share of the rest of Moldova, to which Transnistria is officially part of, dropped 2 fold: from 42.5% in the first quarter of 2017 down to 21% in the same period of this year. The central bank in Tiraspol explains that the decline was connected to plummeting prices for electricity. Ukraine is the second largest market for Transnistrian goods, accounting for 37.5 million dollars, or almost twice as much as in the previous year.

Russia, the gas source

Imports into Transnistria meanwhile increased by 31% in the first quarter, up to 300.6 million dollars. Energy resources accounted in continuation for the largest part of imports – mainly Russian natural gases – around 113 million dollars, or more than 37% of total. Metal imports were worth 53 million dollars, chiefly as a result of a 4 fold growth of shipments of metal scrap to the Ribnita metallurgic plant.

Russia remains Transnistria's largest import partner thanks to natural gases, though its share reduced from 48% down to 41% in the given quarter. Ukraine is the second largest source for imports, which increased 2.6 fold up to 69.1 million dollars. So-called "imports from Moldova" – to quote Transnistrian official reports – reduced by 7% down to 20.4 million dollars.

At the same time, the imports from EU countries increased by 22% up to 46.5 million dollars. In the export structure a number of giant enterprises such as Ribnita mettalurgic plant, Cuciurgan power plant, Tirotex textile plant, and Ribnita cement plant make up the bulk of Transnistrian exporters. These are controlled by Russian businessmen, Transnistrian officials, or Sheriff Group. ©

Who Won 51.5-Million-Leu Contract to Ship New Ambulances

The first ten ambulances out of total 69 purchased for the Prehospital Medical Emergency Service have been shipped to Moldova and the remaining vehicles are expected to arrive by the end of May. The Ministry of Health, Labor and Social Protection has said the ambulances will be assigned to 32 emergency service units across the country, mainly in towns where the ambulances were 90% used up. All regions are covered, a press release goes on, including central, northern southern districts, and Gagauzian autonomy.

450 new ambulances are necessary

"The sanitary transportation vehicles are of Russian manufacture and are compliant with all international standards in the field; the medical equipment used in those vehicles allows to provide emergency services at the highest level. This is just the first stage of modernization of the prehospital medical assistance services," the ministerial press release specified.

This is just a beginning. According to Alexandru Ghidirimschi, deputy director of the National Center for Emergency Prehospital Medical Assistance Center (CNAMUP), as many as 450 more ambulances are necessary to replace the aging and often dysfunctional vehicles in service, especially in rural areas. "There are currently 295 fully working ambulances in the emergency medical assistance sector, made chiefly during 1996-2013. More than 80% of these vehicles are 100% used up. The first step towards renewing the motor park was made in 2017 when 69 ambulances of B-Type were acquired and shall be delivered by mid-May 2018," Mr. Ghidirimschi said at a staff meeting.

Government adds 273 million to the expense bill

The Government has announced that it will give 273 million lei more to purchase another 168 ambulances, including 35 vehicles of C-Type (for intensive therapy) and 133 vehicles of B-Type (for first aid). The Ministry of Health, Labor and Social Protection has explained that "once the modernization of the ambulance basis for emergency assistance continues, the capacity for primary emergency medical services will increase along with the speed of aid for patients."

Who is the supplier

The new ambulances were made at GAZ plant in the Russian Federation. GAZ is part of the Basel Group of Russian oligarch Oleg Deripaska, who is on the US sanctions list. The acquisition of GAZ ambulances has sparked some negative reactions and raised a few questions. In addition, the Moldovan company that imported the ambulances from Russia is Autoritate Grup SRL, a limited liability registered in the village of Coşniţa, Dubăsari District. It operates from an office in Chisinau. The firm has a statutory capital of 5,400 lei and is owned 50-50% by two associates: Vasile Cucu from Moldova and Aygar Necati from Turkey.

This firm won in December 2017 an auction organized by CNAMUP for the delivery of 69 ambulances for a total price of around 45 million lei. However, in March 2018 a new auction was held in order to increase the contract price by 6.5 million lei, official data show. The total cost thus climbed to 51.5 million lei, or 746,300 lei per each vehicle.

Vasile Cucu, a senior logistics official at the Prehospital Emergency Medical Assistance Service, says the price changed in connection with a decision to purchase all-wheel drive ambulances rather than two-wheel drive vehicles. "These machines are designed for rural communities and we decided to increase the contract's cost in order to have full haulage ambulances. The law permits such an operation within 15% of the initial cost," Mr. Cucu stated.

Asked about the fact that his name coincides with the name of the owner of Autoritate Grup SRL, Vasile Cucu, the official said it was a simple coincidence and he had no relation whatsoever with the businessman. "For the purpose to avoid questions, I withdrew from the selection panel and skipped the acquisition process," the logistics official assured.

Contracts totaling almost 77 million lei

Interestingly, Autoritate Grup has won over the past five years more than 40 contracts totaling 76.8 million lei from the government, mainly medicines and medical equipment, and agri-food. It is also on the list of exporters of agricultural produce to Russia. The firm's manager and owner Vasile Cucu says Autoritate Grup got on that list by accident. "We never requested permission to export agricultural produce from ANSA or Rosselhoznadzor (Moldovan and Russian phytosanitary services) and we never shipped fruit or vegetables to Russia," Mr. Cucu said.

Vasile Cucu also denied that the ambulances he delivered were "fully manufactured at GAZ," – only the chassis is produced by GAZ and the rest of vehicle is Sobol. "What I heard isn't true. The vehicles had passed the process of conversion into a mobile medical unit at another Russian company – Promteh. All medical outfits are compliant with the highest international standards of safety and were made in Japan, South Korea, Italy, and other countries. The medical equipment itself costs much more than the vehicle as such," Vasile Cucu told Mold-Street.com.

The contract with CNAMUP obliges Autoritate Grup to offer a two year service warranty for the vehicles, he went on. Asked to confirm a State Fiscal Service published report that exposes Autoritate Grup as a tax debtor, Mr. Cucu described it as "an error in official registers": "If my firm had any debts in taxes or other kind of fees or duties at the time of auction, it would never be admitted to that auction."

New emergency aid stations

The National Center for Emergency Prehospital Medical Assistance Center was founded in 2015 and has five divisions across the country – North, Center, Chisinau, South, and Gagauzia. Its mission is to provide quality primary medical services to 3.55 million residents of Moldova, all free and round o'clock. CNAMUP operates 92 stations in 1,600 settlements. The Government intends to open three new stations this year: in Brănești village of Orhei District, in Grozești village of Nisporeni District, and in Pripiceni village of Rezina District. ©

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Moldtelecom's Revenues Dropped 20% In One Year. How to Waste Hundreds of Millions

Moldtelecom SA, a joint-stock company 100% owned by the state, has reported for 2017 revenues of 1.77 billion lei (roughly 100 million dollars), which is the worst outcome over the past 15 years. The sales of the national telecom operator dropped 20% compared with year 2016 and almost one billion lei compared to ten years ago, the annual company report says.

Profit decreased 10 fold

Although the overall prospect looks worse, the company continued to generate profit. In 2017 its profit stood at 61.85 million lei; that is almost 11 million lei less than in 2016 and 10 fold less than in 2006. Unlike the previous years when half of the profit was leaked into the state coffers, the profit from last year will remain on company accounts at full disposal of Moldtelecom management.

It looks like Moldtelecom is no longer fit for competition on the domestic market and it's harder for the company to persuade banks for borrowing. These are the reasons why the Government has decided to lend a helping hand to the telecom corporation that controls the land-line phone network. In 2017, by the way, Moldtelecom halved investments in its land-line infrastructure.

A published report from the National Agency for Communication in Electronic Communications and Information Technology (ANRCETI) shows that Moldtelecom remains the largest provider of land-line phone services but revenues from fixed-line telephony netted less than 38% of sales and continued plummeting. Cable internet earned 44% and mobile phone service earned 9% for Moldtelecom.

A driver of digital life in countryside

Moldtelecom's director-general Dan Mitriuc has said recently that the company remained "the driver of digital life in countryside" and that its mobile phone division Unite "achieved a spectacular performance, which ANRCETI has acknowledged publicly." - "We are number one in fixed-lines internet and digital television, in mobile internet and fixed-line telephony," Mr. Mitriuc was quoted as saying.

But ANRCETI reports contradict the Moldtelecom manager. Take for example the mobile internet service. In 2017 the three mobile communication operators (Orange Moldova, Moldcell and Moldtelecom/Unite) posted a total of 908.5 million lei in sales of internet access via 3G, 4G, and dedicated service. This sum represented a grouth of 27.4% compared with year 2016. Of this sum, Orange Moldova's sales accounted for 557.1 million lei (+32.7%), Moldcell's sales accounted for 253.8 million lei (+29.8%), while Moldtelecom's sales accounted for just 97.5 million lei (-0.4%), official data show.

Mr. Mitriuc also claimed that last year Moldtelecom's Unite was the best growing mobile phone operator for a second year in a row. He is right for a part of this statement: indeed Unite was the fastest growing mobile phone service provider, but its market share was under 5% only.

Billions in investment, performance under expectations

If we look again at ANRCETI's reports, readers can learn that since Unite kickstarted in March 2007, its mobile phone market share oscillated between 3.5% and 4.8%. Unite never caught up with its rivals and sometimes worked in minus: the Auditors Court found in a published report that in 2011 Moldtelecom spent 260.5 million lei for Unite maintenance and servicing and earned 118.4 million lei. The loss amounted to 142 million lei in 2011 alone.

The same report states that Moldtelecom invested more than 888 million lei in development of its 3G mobile phone network in 2009-2012 and earned more than 3 fold less – 251 million lei. Nor was Unite profitable in other years. The latest financial report (for 2016, given that the one for 2017 has not been published yet) says Unite didn't fare better in recent years and never crossed the profitableness threshold. The mobile phone services earned 192 million lei for the company while the operational costs were 2.8 fold larger.

It means that for every 1 leu Unite earned in 2016, it actually spent 2.8 lei. In order to cover Unite's losses, Moldtelecom used to take money from fixed-line phone services to plug the holes and then put its hands into the pocket with internet revenues.

Moldtelecom has been for sale for two decades

Stela Iacob, a spokeswoman for ANRCETI, says the existing telecom regulations would not prohibit companies from using profit from one activity in order to cover the loss from another activity, therefore no restrictions applied to Moldtelecom in cross-subsidization.

Drawing conclusions about the performance of this state-owned company, one may figure out that Moldtelecom is unable to compete in an open market and that liberalization has turned it into a money waster.

Moldtelecom was founded in 1993 as part of the telecommunication sector reform in Moldova. The state remained the sole shareholder after its reorganization into a joint-stock company in January 1999. Moldtelecom is probably the only Moldovan company that is being for sale during two decades but its privatization is unlikely, given the fact that during this period it has been a genuine milking cow for all governments in Chisinau and affiliated businesses. ©

Why Moldovagaz Defies ANRE's „Political" Decisions

Given that the National Energy Regulatory Agency (ANRE) ruled on March 16, 2018, to lower the natural gas tariffs by an average 20.3%, the domestic gas monopolist Moldovagaz and its subsidiaries were obliged to comply with that decision and re-count all invoices already paid by now.

This is what ANRE official say in public. "The invoices mailed to individual and corporate consumers during the first two months of the year have to be re-counted. Overall Moldovan consumers [without Transnistria] will be charged 1.5 billion lei less for natural gases than in 2017," ANRE director Tudor Copaci announced after a public meeting of the agency board on March 16.

Premier Filip's promises

Moldovan Prime Minister Pavel Filip raised this issue at a cabinet meeting in late January 2018, saying that ANRE's decision would be retroactive and that Moldovagaz would have to find a payback solution to comfort consumers who had paid more than new tariffs provided. „The procedures in effect require that the price [for natural gases] is set out at the beginning of a calendar year and is valid for the rest of the year. It means from January 1. Given that the procedures take some time, I have asked Moldovagaz officials to keep in mind this possibility and to think of a solution. Either consumers get back their surplus money or get a rebate in the future invoices," the premier stated.

Hundreds of millions at stake

In reality Moldovagaz has recalculated the invoices in the case of private households only, leaving unsettled dozens of thousands of businesses, organizations and public institutions that use natural gas for heating, including resident cooperatives operating small heating stations to warm apartments during the cold season.
The reason for discrimination is of pure financial nature: in the case of legal entities Moldovagaz would have to pay back hundreds of millions of lei.

Termoelectrica, for example, the national distributor of heating in Moldova, is the largest institutional consumer of natural gases. It operates two electro-thermal stations in the capital and consumes around one third of all gases Moldova imports. Should Moldovagaz extend the applicability of new tariffs onto Termoelectrica, the latter would save some 200 million lei. Termoelectrica officials though are not expecting anything of this kind. "Our enterprise has received an invoice that reflects the new tariffs starting March 17, 2018, the date when ANRE's decision was published in the official gazetter," said Elena Junghina, a spokeswoman for Termoelectrica. She said Termoelectrica management would not comment on whether Moldovagaz was perhaps obliged to enforce the new tariffs retroactively.

Moldovagaz decided!

Tudor Iașcenco, director of a printing firm in Rezina and publisher of Cuvântul Newspaper, said he received an invoice for his home that reflected the new tariffs minus the difference overpaid in the first two months of this year. The firm however didn't get any compensation. "I called the Rezina office of Orhei-Gaz [a subsidiary of Moldovagaz] and its officials turned down my request for a lower price for the last two months of last winter. Instead, they recommended me to refer all enquiries to the central office of Moldovagaz in Chisinau," Mr. Iașcenco recalled.

Mold-Street.com asked a number of Moldovagaz district offices and the central office to explain how they enforced the decision and the answer was the same: the tariffs took effect on March 17 and no recalculation was applicable for legal entities. "We didn't see any text in the official gazette stating that the decision was applicable from January 1… What we know is that the gas tariff law [actually it's a decision] entered into force on March 17, therefore we invoiced according to that date," a spokesman for Moldovagaz said.

Asked then why the company complied with ANRE's decision in the case of households, he said: "Moldovagaz has decided to apply that decision in relations with individuals only!" On April 27, Moldovagaz deputy chairman Iacov Cazacu emphasized in a phone conversation with Mold-Street.com that ANRE's decision didn't specify a date of entry into force and asked more time for clarifications before stating his official position. He advised us to get back in touch on May 2 but never answered the phone ever since.

ANRE director-general Tudor Copaci insists that the decision is valid for the entire year and for all consumers, starting January 1, 2018. He avoided a straight answer whether the monopolist company was violating any rules by saying that Moldovagaz could revise the tariffs for legal entities some time later. "It is not obliged to do so immediately, it can return to this issue during the course of year, given the fact that our laws aren't strict about it. In addition to this, an immediate restitution for all could be harmful for business and for the cash flow at this enterprise," the ANRE head stated. If Moldovagaz refuses to enforce the ANRE decision by the end of the year, only then would the agency act, he added.

Lack of independence at ANRE

An independent energy expert, on the other hand, blames ANRE for lack of independence. Victor Parlicov, a former head of ANRE in 2010-2014, believes that Moldovagaz's insubordination is a "clear demonstration that the agency lack independence and blindly obeys orders from the prime minister." "This is an absolute madness. It happens because ANRE plays political games; this can't end well. The idea to lower the tariffs and apply such a decision retroactively came from Premier Pavel Filip. The agency could tell him that was not possible and pass a fairer and clearer decision in order to avoid confusion and interpretation. Now ANRE will have to act in order to make things right," the expert stated.

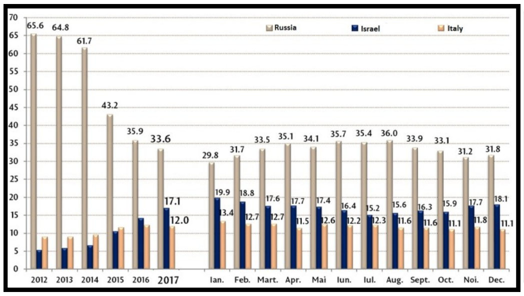
Mr. Parlicov reminded that ANRE was solely in charge with tariff policies and market supervision. If Moldovagaz refused to comply with its decision, then ANRE must give an interpretation or sanction the monopolist, he stressed. ANRE's decision was published in the official gazette (Monitorul Oficial) on March 17, 2018. The text does not say when the new tariffs were expected to enter into force, the wording being limited to: "… new tariffs and regulated prices for natural gases for year 2018."

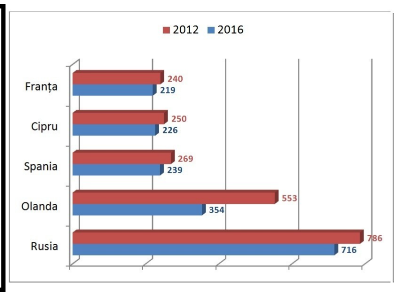
Past kickboxing between ANRE and Moldovagaz

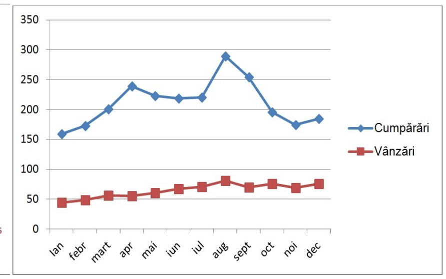
This is not the first time Moldovagaz defies a decision passed by the regulator. In the period 2011-2013 the monopolist was at a genuine war with ANRE. Back in 2011 ANRE declined a request from Moldovagaz to include losses of 382 million lei in the price list for Moldovan consumers. This was the equivalent of around 64 million cubic meters of natural gas. ANRE also reported a number of serious deviations from existing regulations at Moldovagaz.

The war between ANRE and Moldovagaz was waged in courtrooms and government institutions. it culminated with the sacking of Victor Parlicov from the post of director-general in 2013 and a bomb attack on ANRE director Nicolae Răileanu, whose personal car was destroyed by the blast. The case made headlines in the European Union and attracted the attention of EU politicians who called for a truce. The Energy Community then mediated a memorandum between Moldovagaz and ANRE.

Moldovagaz is the largest enterprise in Moldova and half of it is property of Russian gas giant Gazprom. The Moldovan government owns 35.3% and the Transnistrian secessionist republic controls 12.4% of shares; the rest are divided among small shareholders. ©







Nr	GOVERNMENT / INDICATORS	u.m.	2010	2011	2012	2013	2014	2015	2016	2017*
			FILAT			LEANCĂ		GABURICI STRELEȚ BREGA	FILIP	
1	Economic growth	%	7.1	6.8	-0.8	9.4	4.8	-0.4	4.1	3.5
2	Inflation rate, annual average	%	7.4	7.6	4.6	4.6	5.1	9.7	6.4	6.6
3	Unemployment	%	7.4	6.7	5.6	5.1	3.9	4.9	4.2	4.0
4	Exports	%	20.1	43.8	-2.5	12.3	-3.7	-15.9	4.0	15.0
5	Investments in long-term material assets	%	22.6	12.5	-1.1	4.2	3.8	-9.4	-12.8	3.0
6	Average wages, real evolution	%	0.7	3.7	4.1	3.5	5.4	0.7	3.7	5.2
7	Changes of the average rate for credits in the banking sector	p.p.	-4.1	-1.9	-1.0	-1.1	-1.7	3.5	0.1	-3.8
8	Credit portfolio in the banking sector		13.7%	16.9%	21.5%	20.7%	28.1%	-28.4%	-11.3%	-2.8%
9	Collections to the national public budget, taxes		17.1%	9.4%	11.2%	10.0%	15.0%	2.9%	5.2%	17.5%
10	Customs duty collections		26.7%	22.0%	6.0%	15.8%	5.6%	2.6%	10.4%	17.0%
11	Internal state debt, % of GDP		7.4%	7.1%	7.0%	6.7%	6.3%	5.9%	16.0%	15.0%
12	External state debt, % of GDP		18.9%	16.3%	17.0%	16.8%	18.2%	21.4%	21.8%	19.4%
13	Change in the Doing Business table (44th place in 2017)	poziții	-5	18	-5	8	29	2	3	0
14	Change in the Global Competitiveness Index (89th place in 2017)	poziții		1	6	-2	7	-2	-16	11
15	Average exchange rate	MDL/USD	12.4	11.7	12.1	12.6	14.0	18.8	19.9	18.5

*- some data for 2017 are estimates

Note: intense red means the worst and intens green means the best indicator.

#	Group of products	Moldovan exports to Russia, in thousand dollars		Share in total exports	
		2012	2016	2012	2016
1	Fruits and nuts	91,511	39,829	45.2%	25.6%
2	Pharmaceuticals	70,469	26,941	75.0%	55.1%
3	Nuclear reactors, caldrons, machines, appliance and mechanical devices, parts of these	49,267	23,272	63.9%	52.2%
4	Soap; organic detergents, washing substances, lubricants, wax, candles and similar items	14,622	17,569	98.6%	97.6%
5	Articles of apparel and clothing accessories, knitted or crocheted	9,809	12,225	9.4%	13.3%
6	Drinks, liquid spirits and vinegar	61,652	11,615	28.7%	6.6%
7	Rubber and rubber items	23,601	10,619	93.2%	85.1%
8	Diverse items from common metals	8,666	8,303	75.3%	70.4%
9	Milk and dairies; chicken eggs, natural honey, eatable products of animal origin	2,447	7,698	33.8%	35.8%
10	Meat and comestible organs	21,439	7,174	99.5%	84.7%
	'TOTAL	655,132	233,177	30.3%	11.4%

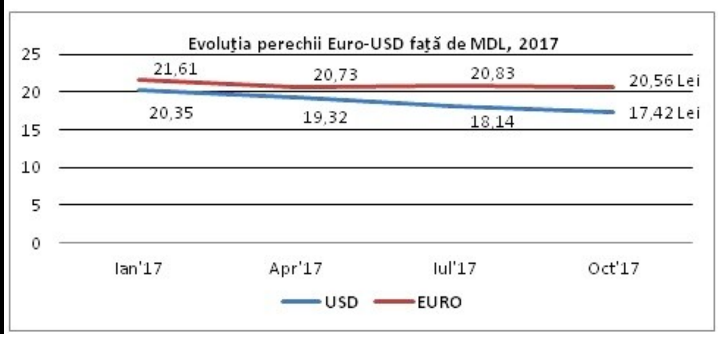
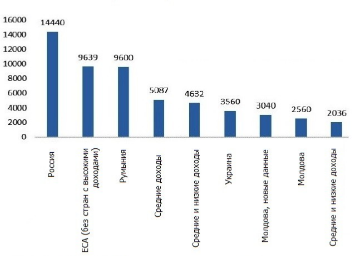
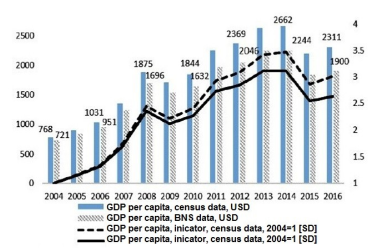


Рисунок 4. ВНД на душу населения, метод Атласа, согласно переписи, и текущие данные НБС в Молдове и опорных странах



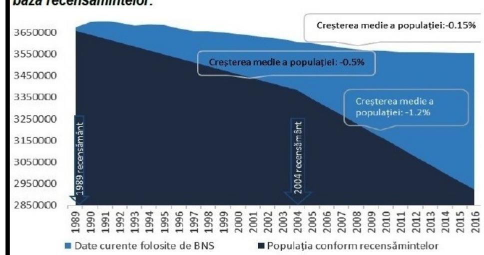
Источник: Всемирный банк, на основе данных НБС

Figure 3. GDP dynamic per capita according to the census results and actual data of BNS.

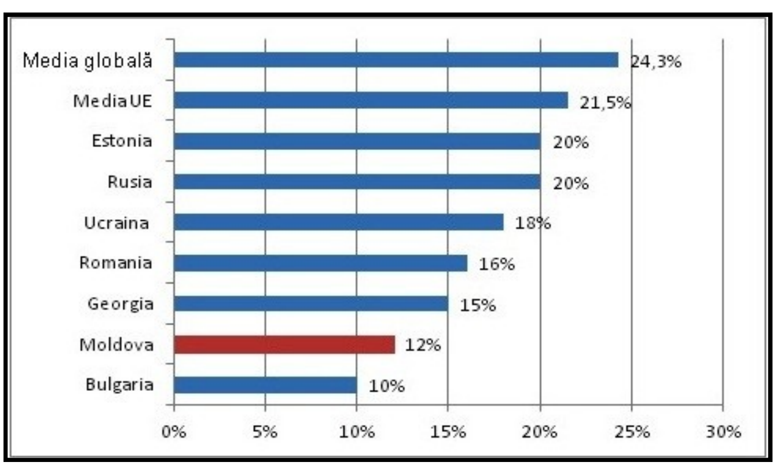


Source: World Bank, using BNS data.

Figura B. Datele utilizate în statistica națională și dinamica populației în baza recensămintelor.



Sursa: Banca Mondială, utilizând datele BNS.



Moody's rating history for Moldova

Agency	Rating	Outlook	Date
Moody's	B3	stable	Jan 13 2017
TE	25	positive	Apr 16 2016
Moody's	B3	negative	Jul 31 2015
Moody's	B3	stable	Aug 12 2010
Moody's	WR	n/a	Oct 01 2009
Moody's	B1	negative watch	Feb 05 2009
Moody's	Caa1	stable	May 06 2003
Moody's	Ca	stable	Jul 11 2002
Moody's	Caa1	stable	Jul 03 2001
Moody's	B3	stable	Apr 19 2000
Moody's	B2	negative watch	Jul 13 1999
Moody's	B2	stable	Jul 14 1998
Moody's	Ba2	stable	Jan 14 1997