

Foreign Policy Association together with Friedrich-Ebert-Stiftung Moldova offer you a newsletter on foreign policy and European integration issues of the Republic of Moldova. The newsletter is part of the "Foreign Policy Dialogue" joint Project.

NEWSLETTER

MONTHLY BULLETIN • NOVEMBER 2018 • NR.9 (151)

Synthesis and Foreign Policy Debates

The newsletter is developed by Sorina Ștefârță, editor-coordinator

TOPICS OF THE EDITION:

1. Anette Scoppetta, deputy director of the European Centre for Social Welfare Policy and Research: "We need to meet people's needs and not just the economic interest of companies"
2. Editorial by Adrian Lupușor, director of "Expert-Grup": "Justice reform as the most effective strategy to attract investment"
3. Veaceslav Negruță, expert with "Transparency International Moldova": "Clean investments do not seek ways to legalize their origin"
4. Expert Opinion: "State of the Country Report 2018: Key challenges and solutions"

News in Brief



A new critical Resolution on the Republic of Moldova was adopted on 14 November by the European Parliament. 396 MEPs supported the Resolution, 76 voted against, and 186 abstained. The Resolution shows that the Chisinau authorities are violating their commitments under the Association Agreement, signed four years ago, attesting several abuses of the democratic norms as well as the influence of a small group of people on all state institutions. As in the Resolution of 5 July 2018, the European Parliament accuses the Republic of Moldova of selective justice, limited progress in fighting corruption, pressure on the opposition leaders, and attempts to weaken the independent press. In particular, the deputies noted a regress of democratic standards, referring to the modification of the electoral system and the last local elections in Chisinau. The MEPs also demand that the full text of the Kroll 2 Report on the billion theft be made public and that the authorities do not give up on the case of the Mayor of Orhei, Ilan Șor. Similarly, MEPs condemned the recent extradition of Turkish teachers following their alleged ties to the Gulen Movement.



On November 6-7, Deputy Prime Minister Iurie Leanca paid a working visit to Berlin, where he had meetings with several senior officials from Germany's governmental and legislative structures. During the talks, there has been addressed a wide range of topics related to the Moldovan domestic political situation such as the 2019 parliamentary elections and the latest developments in the Transnistrian case, as well as the relations with the neighbouring countries, Russia and the EU. Several German politicians voiced confidence that, despite the problems it faces today, the Republic of Moldova should at one point be offered a clear European perspective, just as in the case of the Western Balkans. At the same time, the German officials evoked Berlin's concerns over the recent developments in Chisinau, expressing regret that Moldova lost its role of the "frontrunner" of the Eastern Partnership. The Republic of Moldova remains on the list of priorities of the German foreign policy in Southeast Europe, but the future of the Moldovan-German and Moldovan-EU relations depends on the quality of the 2019 parliamentary elections and on the reforms undertaken by Chisinau under the Association Agreement with the EU, said the German officials.



The State Secretary of the Ministry of Foreign Affairs and European Integration, Daniela Morari, participated in the Eastern Partnership Reflection Forum (EP). The debates focused on the role of the Eastern Partnership in the EU security architecture, the challenges and prospects of the European community's relations with the Eastern partners on the eve of celebration in 2019 of the tenth anniversary of this initiative. Daniela Morari reiterated our country's commitment in the context of the Eastern Partnership, noting also the need for a new approach after 2020 in order to ensure an upward trend. Daniela Morari also participated in a round table called "Unity and Division in Europe: New Approaches to European Cooperation and Integration" where she presented her vision on the EU cooperation with Eastern European and Western Balkan countries in the context of the new regional challenges. The third Eastern Partnership Reflection Forum is planned to take place this autumn in Chisinau.

Republic of Moldova, in search of.. fantastic investments



Sorina Ștefârță

How to identify new factors of investment attraction that bring know-how, create well-paid and decent jobs, contribute to the growth and diversification of exports, as well as to a rapid, yet balanced and sustainable economic

development? To find answers to these questions, on 19 October, Expert-Grup in partnership with the Friedrich-Ebert-Stiftung Moldova organized the MACRO International Conference 2018. Its sixth edition entitled "Moldova in 2018: investments for people

and public good" served as a platform for discussion among Government and Parliament decision makers, independent experts and development partners, local public authorities and other relevant stakeholders. They all came up with their own vision of

► what should the investments for the Republic of Moldova look like, and especially their quality and the way they should reach the country.

Also about investments, but already in a more 'sophisticated' context, they discussed at the beginning of November in Dubai, in the United Arab Emirates. Right there, at the Global Residence and Citizenship Conference, the highly-disputed and challenged Moldovan Citizenship against Investment Programme was launched at the international level. It is true though that the news about the event having been moderated by Sofia, the first humanoid robot, has blurred the information on the Programme itself, presented by Chiril Gaburici, Minister of Economy and Infrastructure. He mentioned that the Programme's objective is to strengthen the international perception and competitiveness of the Republic of Moldova in order to attract foreign direct investments in the strategic development areas established by the Government; that the current Government regards businesspeople as partners; that the Programme is going to stimulate economic growth, inspire local industries and facilitate the development of society in general. And so on and so forth.

What is the future of the foreign investments in the Republic of Moldova and what are the paths they will be coming - if they come - to the country; which investments will prove their economic efficiency and, especially, their "social" application – we will see it in time. For the time being, we have tried to learn from national and international experts how can investments serve a social purpose and why for them to be "fantastic," they should be clean.

We need to meet people's needs and not just the economic interest of companies

Anette Scoppetta, deputy director of the European Centre for Social Welfare Policy and Research



Holding a PhD in Social and Economic Sciences from the University of Natural Resources and Life Sciences in Vienna, Anette Scoppetta, deputy director of the European Centre for Social Welfare Policy and Research, focused in her work on areas such as social policies, labour market, social inclusion and social innovation ... Speaking at the MACRO Conference in Chisinau, Anette Scoppetta talked about her vision and the vision of her institution regarding "the public good and human wellbeing", especially from the angle of social aspects of investments.

■ *Ms. Scoppetta, what does the "public good and human wellbeing" mean today, including from the EU perspective?*

■ Actually, in order to enhance human wellbeing and safeguard public goods across the globe we need to take a holistic approach by looking at all three pillars of Sustainable Development adopted by the United Nations - the economic, the social and the environmental pillar. The European Centre for Social Welfare Policy and Research, which is an intergovernmental organisation affiliated to the United Nations, works in the same manner. Its purpose is to foster collaboration between governments and organisations in the field of social welfare. We provide applied social science and comparative empirical research on social policy in the UN-European Region, forge the evidence-base for social policy making and mutual learning on social welfare issues and initiate future-oriented public policy debates on social welfare issues.

■ *To what extent is the voice of your Center heard in European countries? Do you have lobbying policies? Do you work with governments?*

■ Evidence-based (social) policy is on demand in many countries. Frequently,

governments implement policies without any evidence and/or without examining the impacts on specific groups of society, especially for the most vulnerable (e.g. via simulations). Unfortunately, our voices are often not heard; especially at national and regional governance levels but we do our best with our various dissemination channels to make our voices been heard.

■ **Your areas of interest include social policies, labour market and social inclusion, as well as the social change or social innovation. What processes characterize social change today and what is social innovation?**

■ Social change happens. It is the intentionality of social innovation, the will to implement a new practice, what distinguishes from social change (see Franz et al. 2012 *Challenge Social Innovation*). Yet, social innovations are changing social relations, leading to new ways of doing, thinking and organizing, and aiming towards a world based on ecological and human values, nurturing the commons and treasuring basic human rights and democracy (Transit/Manifesto for Transformative Social Innovation 2017). The many people behind social innovation thus intentionally aim at reshaping society and co-create social change in their environment. Social innovation can drive societal change and empower actors to deal with challenges.

Today, society is an annex to market forces

■ **How do we bring socially “healthy” investments into the economy?**

■ What is urgently needed is shifting the power balance between policies. Today, society is an annex to market forces (e.g. Polanyi 1944) and the environment is

sub-ordinated to the economy. Since we urgently need to safeguard our environment, we have to take Sustainable Development seriously. Unfortunately, I only see lip services being paid by policy makers but no signs for meaningful social change. We continue as usual rather than initiating change.

■ **You mentioned in your speech that social policies are not just accurately calculated taxes or taxes collected on time, but, above all, it is the ability to do so that the person is in the centre of the working process. How can this be achieved in practical terms?**

■ By placing people in the centre of all concerns we serve the needs of people rather than maximising growth only. We need to respond to the needs of our society (and the work-force in particular) and not just to the economic needs of the firm. Private investments can do a lot (and thus contribute to real change) if people are placed in the centre of all business concerns. How? Enterprises need to take over shared responsibility of the well-being of people by ensuring adaptative workplaces (secure and adaptable employment), training of staff, good working conditions (transparent and predictable working conditions), ensuring work-life-balance, paying wages for a decent standard of living, and so on and so forth.

■ **You said it also in Chisinau that the society has become an annex to the market and that after 20 years more and more people will be replaced by robots at work. What are our chances to capitalize on human capital and how to do it?**

■ May you allow me to specify this point since this is an important one: what I meant was that we today see the society being an annex to market

forces (see above) and that in case we do not manage to shift the power balance by regulating the market and in parallel investing in the social dimension, we risk to fail especially due to the digitalisation processes that our society is undergoing. Today, Google, Amazon, Facebook, etc. are telling us what we want and thus are the driving force of our future. But it should be us shaping and designing the future and thereby steering technological developments. Today we see the opposite taking place.

■ Therefore, we urgently need to invest in human social capital. This also includes training of our work-force and even more important education and training of those at the margins of the labour market. We already have a divided society: divided regarding wealth that lately builds on the division of skills. We see the group of the ‘digitals’ and the group of ‘non-digitals’. All studies that I have read suggest that the poorer (and here especially the ‘non-digitals’) will become even poorer because of our current system that builds on capitalism supported by neo-liberal *laissez-faire* economics. We thus need to proactively drive the automatization and digitalisation process that we are currently undergoing, the 4th industrial revolution, towards our societal vision. This vision must be built on Sustainable Development and an inclusive society in order not to revise the trend of dividing the society.

We need social investment to enable our societies to develop

■ **Robotization and digitalization are inevitable. However, what should the states do with the people? What can we do with the most vulnerable segments of the population?**

4 Synthesis and Foreign Policy Debates

■ First, all individuals, all groups of our society are equally valuable. Our systems, however, give some a better start compared to others. Education, for instance, is socially inherited. We thus need to reduce inequalities (systemic change) and help those who need help. The assistance needed ranges from outreach to vulnerable groups to holistic offers along an integration chain. The services must be adapted to the needs of the individuals. We need low-threshold offers that include health counselling, depth advice, training on daily routine, etc.

■ ***Should we totally rely on the business sector and market economy or there is need for state regulations? Should we start thinking about it now or we can wait for another 20 years to address it?***

■ There is an urgent need for a proactive role of the state. Leaving it to the economy has brought us to where we are today. That the richest 1 percent bagged 82% of wealth created in 2017 while the poorest half of humanity (3.7 billion people) saw no increase in their wealth (Oxfam data). The longer we wait, the higher inequality gets and the more our society divides. We need to act now.

■ ***What do you think are the most pressing challenges in achieving welfare? What are the shortcomings of the Republic of Moldova in this respect?***

■ Most pressing is the need for a shift of power between the economy, the social and the environment sphere but this concerns all countries on the globe. Instead of the primary principle of enhancing individualism and self-interest we have to maximise cooperation. Again, this is a global need. The shortcomings in Moldova, as is the case in other parts of Europe, are linked to that: we need social investments to enable for our society to flourish.

■ ***There are quite a few people who see their well-being just as a unilateral action by the state or, eventually, of the private sector – based on the “give me” principle. Who is in fact responsible for the welfare of a nation? And what does welfare mean?***

■ Welfare comprises all efforts to ensure the well-being of people. The responsibility of the welfare of a nation is shared between the public, the private and the civil society. Nevertheless, the role the public is crucial in terms of policy coordination and initiating real change. The state needs to take over the leading role by engaging with the other players in order to ensure that all join forces to achieve welfare. Unfortunately, companies take care on their shareholder value but often do not take care of the well-being of their workers. That's why the active role of the state is so important. The state has to lead cooperation between the citizens/ systems/structures and proactively steer the process of social change. Cooperative structure and mechanisms like social dialogue need to be build up and strengthened. Companies can be motivated to be responsive if public investment (monetary and non-monetary) is only directed towards firms that really follow the rules (e.g. social rights, labour law, benchmarking of firms regarding the quality of work, the working conditions, etc).

■ ***You mentioned that “countries that have done so” - implemented social inclusion policies “- are more resilient. How did they succeed? Can you provide some examples?***

■ Yes, analyses have also shown that states characterised by high quality of work, effective social welfare systems and investments into their human capital are more resilient in the face of crises. For background reading and examples, please see 2014 Employment and Social

Developments in Europe Review (http://europa.eu/rapid/press-release_IP-15-3321_en.htm)

■ ***You have also said at the MACRO Conference that “we cannot discuss about economy without discussing about education” - a phrase that has already become an axiom. And how does this phrase fit with the “robotization/ digitalisation” you have talked about earlier?***

■ We need to invest in education and training especially due to digitalisation. For sure there will be areas where people and not robots will be employed and the necessary skills for the “future of work” are going to include creative thinking, creativity, communication and collaboration. Curiosity, initiative and empathy are talents that are likely to be needed (see European Political Strategy Centre, 2016, The future of work. EPSC Strategic Note. Issue 13/2016). We thus need to urgently adapt our education and training according to these needs. The education is key for employment and for social inclusion, Moldova should adapt the education system to these upcoming needs and invest in education & training. A multi-layered policy response, covering the entire life-trajectory, is required.

■ ***What are or should be the priorities of a country that wants to achieve social inclusion in the workplace and employees’ protection?***

■ The priorities are listed in the European Pillar of Social Rights and comprise investments in the following three main categories: 1) Equal opportunities and access to the labour market; 2) Fair working conditions; 3) Social protection and inclusion

■ ***Thank you for the interview!***

Sorina Ștefăruță

Editorial

Justice reform as the most effective strategy to attract investment

Adrian Lupuşor,
director of „Expert-Grup”

To say Republic of Moldova urgently needs investments and investors in order to modernize and develop in a sustainable way are empty words. It is probably one of the few ideas where there is a consensus in the Moldovan society- it is shared by the Government, parties (irrespective of their political colour), the development partners' and the experts' community. De facto, it is an issue that rarely stimulates contradictory discussions ... Just on the contrary, various strategies, policies and reforms have been and are being implemented in order to attract investments. For example, the regulatory framework, which was substantially optimized, brought Moldova from the 94th place (out of 183 states) in 2010 to the 44th position (out of 190 countries) in 2018 in the *World Bank Doing Business* ranking. Also, subsidies are provided for certain types of investments; Free Economic Zones operate; the country brand is intensively promoted etc.

However, the Republic of Moldova remains far from what a truly attractive destination for investors is. Over the past few years, the investment rate has fluctuated around 20% of GDP, being below the level of the countries in the region. Moreover, in 2015-2016, the investments in fixed assets declined dramatically (-20% compared to 2014). De facto, they stagnated in 2017, with a modest increase in 2018 thanks to the public (electoral) investment, which is one of the longest periods of private investment stagnation since independence.

Also from the qualitative point of view things are not any better. Only about 20% of the investment goes to sectors that produce the most easily tradable goods internationally (industry and agriculture) that can contribute most directly to increased labour productivity and exports. The problems



in question become even more acute in the context in which the main competitive advantage of our country, which has helped to attract investments in recent years - the relatively low labour cost - most likely will not last for long. This is caused by the migration of the working age population and demographic aging, which leads to increased costs and, at the same time, to reduced labour force availability. Already today, more and more investors mention that it is increasingly difficult to

find available and relevant workforce.

How to identify new attraction factors for investment that can bring know-how, create well-paid and decent jobs, contribute to the development and diversification of exports, as well as to a rapid, yet balanced and sustainable economic growth? We have tried to find answers to these questions at the 2018 edition of the MACRO International Conference, and one of the main conclusions we have made is as trivial as symptomatic for the state of the country: no reform aimed at improving the investment climate will produce the expected impact without a substantial strengthening of the independence, integrity and quality of justice. This would allow for an effective fight against corruption, which is the main barrier for investors, (see Global Competitiveness Reports for the past years), and for increased investors' protection rights - a key element for any investment decision.

Thus, the justice reform remains for the Republic of Moldova the most important strategy for attracting investments, because regardless of how quickly a permissive act is obtained or how small the taxes are, if the authorities remain corrupt and the level of protection of property rights is weak, we cannot hope for significant and qualitative investment. The latter is not a novelty, this has been an obvious finding repeatedly discussed in each



of the six editions of the MACRO Conference so far. The fact that it remained relevant also in 2018 shows we didn't make, unfortunately, any major progress in the justice reform. In turn, it limits the impact of other reforms and policies aimed at attracting investment in the country (the regulatory reform, subsidies for job creation, "investments against citizenship", subsidies for agricultural investment, subsidies for migrants and others). Thus, without a real reform of the justice system, the effect on investment attractiveness of other reforms and policies, no matter how good they may be, would be similar to giving vitamin C to a cancer patient. The problem should be solved by eliminating its root causes.

Another important aspect relates to the quality of the investments Moldova needs. At first glance, quality talks seem premature and less important for a country that needs investment as an oxygen mask - in order to save and develop its production capacity that has massively degraded over the long transition period. As a result, the current governance, as well as the previous ones, is actually focusing on increased investments as volume, while the quality of investment is not prioritized accordingly. This served as reason for a series of controversial initiatives promoted under the slogan of increased investment in the economy. For example, the newly introduced procedure of 'citizenship against investment' can indeed increase the volume of investment, but it will increase the investment in the sectors that don't directly contribute to generating value added in the economy or creating decent jobs. On the contrary, they can fuel real estate or financial speculation undermining the financial stability. Another recent initiative refers to capital amnesty. Though theoretically it can lead to the entry of financial flows into the country that can be used for investments, it may favour money laundering, with major risks to the financial stability of the state. Another example of policies that stimulate investments without focusing on their quality refers to the subsidy policy in agriculture, as a result of which the investments were mostly made in low-value agricultural sectors. Also, mention should be made about the Law on Temporary Workers - another example of facilitating entrepreneurial activity without taking into account its quality and sustainability, as the law has nothing to do with stimulating the creation of well-paid and decent jobs.

The list of examples could continue but, ultimately, they point to a simple fact: in the process of attracting

investments, emphasis should be placed on both quantity and quality. Practically, in order to attract qualitative investment, we need to consider at least two dimensions:

- (i) integrity - the final beneficiaries of investments should be business people of integrity, while the financial resources entering the economy should be clean. In this respect, we need a real "de-offshoring" of the economy, in parallel with the strengthening of anti-money laundering institutions.
- (ii) sustainability - investments should be encouraged to generate added value in the economy, use local raw materials, implement innovations and know-how, create well-paid and decent jobs and, ultimately, lead to the uncoupling of the economic growth from the use of natural resources (green economy). In this respect, it is necessary to align the subsidy and investment attraction policies to this type of activities. At the same time, the capacity and independence of the trade unions should be strengthened in order to protect the workers' rights more effectively and to encourage a balanced dialogue between the state, employers and trade unions (a real social tripartite dialogue).

Ultimately, companies are investing in order to make profits, for as long as possible. Therefore, in order to attract as many investments as possible, it is necessary for the state to create a friendly business environment. Justice reform provides the most sustainable conditions in this respect as it will allow for the corruption costs to be diminished, which is the main barrier to business in the Republic of Moldova, and will create conditions for long-term investment, because it will minimize the uncertainty and the risks associated with the protection of property rights. Other more active measures (e.g. subsidies) should be focused on attracting qualitative investments: those that use local raw materials, promote know-how and thus generate added value; those that harness the country's export potential; those that highlight human capital and create well-paid and decent jobs; those that do not contradict the principles of green economy; and ultimately, those that are made transparently, with effective beneficiaries. This combination of active and well-targeted measures aimed at attracting investments, against the backdrop of a reliable justice system, will ensure investments with multiple positive implications for the quality of life.

Clean investments do not seek ways to legalize their origin

Veaceslav Negruță, expert “Transparency International Moldova”

Together with the modification of the electoral system and the cancellation of the elections' results for the Chisinau City Hall, the law that gives foreigners the chance to obtain the citizenship of the Republic of Moldova for a relative amount of money is among the most contested both by the local anticorruption experts and the development partners. However, like in the first two cases, the Government has been consistent and ... has gone ahead with the law. Thus, at the beginning of November, in Dubai, the Citizenship by Investment Programme of the Republic of Moldova was presented internationally. Based on the above-mentioned law, a foreign investor will be able to obtain the citizenship of our country if she/he allocates at least 100,000 euros to the Sustainable Development Fund or invests at least 250,000 Euros in a strategic domain. “The statistics speaks for itself, we only need to analyse the annual financial reports of such countries as Latvia, Malta, Cyprus, Canada, Australia, where a similar programme has been implemented,” said Minister of Economy and Infrastructure, Chiril Gaburici. On the other hand, the former Finance Minister Veaceslav Negruță, currently an expert with “Transparency International Moldova”, is of the opinion that this initiative is a real danger to the national security...



We are like a trampoline of legalizing the illegalities

■ **Mr. Negruță, why, despite the criticism internally and externally, did the government insist on the Citizenship by Investment Programme? Does it have a strictly economic rationale or this insistence is caused by other reasons?**

■ Here, at Transparency International Moldova, this law is treated in tandem with the capital amnesty as part of one package strongly promoted by the current government. The story lasts as early as 2016, when both draft laws were registered in Parliament on the same day of December 1, and by the same group of authors, led by the speaker of Parliament Andrian Candu.

It is true that they didn't pass the capital amnesty initiative, because of the strong resistance from the experts' community and civil society as well as from the International Monetary Fund, the World Bank and the EU Delegation, that convinced the government to withdraw that draft law seen as extremely damaging. The other Law - Citizenship by Investment - was less noticeable, unfortunately, and was voted in December 2016, entering into force on June 27, 2017. Since then, the Law has suffered modifications, criticism, and scandals, which further outlined its vulnerabilities. One of its main vulnerabilities, which was mentioned also by the National Anticorruption Centre, is the great risk of money laundering through this citizenship formula.

■ **What money and in which way?**

■ Certainly, it is not just about the resources previously withdrawn from the country and that can easily be brought back - at least some of them - by such formulas. These are people who have problems in their home jurisdictions and who, requesting citizenship on the basis of a donation of 100,000 Euros, for example, or an alleged 250,000 Euro investment in real estate or in securities issued by the state, resolves the legal problems they have at home. In addition, in 2018 the government returned to the



NOVEMBER 2018

Synthesis and Foreign Policy Debates

idea of capital amnesty. And here we have found ourselves with two laws as dangerous and controversial as synchronized. The first one was not implemented until the second one was voted. This law package amplifies the bad situation that Moldova faced as a result of the financial frauds that have happened here - the Russian laundromat, banking fraud including also the National Bank. A real trampoline to legalize the illegalities.

■ ***The two laws you referred to - the so-called fiscal package - appear today as a red thread in all the talks of the Moldovan officials with the international partners, but also in the last European Parliament Resolution from November 14th. The government cannot fail to know about it. Why, however, doesn't it want to take account of it?***

■ In fact, in 2018, it seems we have reached the "climax of worries". Thus, after the adoption of the law on capital legalization, both the IMF and the World Bank, and the EU have indicated that this is contrary to the spirit of all the agreements the Republic of Moldova has signed and to which it is a party. Another aspect is that Moldova is seen as a source of financial, economic and political insecurity on the background of legalized capital and the facility for producing cryptocurrency in the Transnistrian region. Because subsequently these resources can influence political processes in jurisdictions of the European Union countries. If we talk about the EU, we have to understand that there, everything that means citizenship by investment is monitored very carefully. The cases of Cyprus, Malta

or Bulgaria indicate very clearly that the great beneficiaries of these citizens or the so-called *golden visa* are certain interest groups that very well connected to some services or groups of influence coming from the East and, in particular, from Russia. And the journalistic investigations made in the sense show how these financial resources distort everything which has to do with the rule of law and functional institutions. And everything, because we're talking about money laundering or legalising facilities. I would refer here to the President of the European Parliament, Antonio Tajani, who said that, in the case of Malta, citizenship sold to foreigners has nothing in common with the economy, and that, in fact, in this way the mafia is trying to find dirty money laundering opportunities.

■ ***To what extent do these laws undermine the efforts of solving the problems in the banking system that have been made in recent years?***

■ There is a direct risk. The banking legislation has been changed at the insistence of the IMF, the World Bank, the EU and other development partners precisely to exclude the possibility of new frauds in the future. Now, if more money-laundering risks materialize, all the efforts of modifying the legislation become null. Moreover, this means that the legislation can at any time be bypassed or adapted to group interests. In fact, this is precisely what we see if we look closely at the latest banking or asset recovery laws, but also at the Law on Citizenship – these are relatively young laws, but changes have already been made because "they need it". Both European and

other development partners still have a lot of questions, highlighting the fact that the authorities here say one thing and do another.

We are selling the attractiveness of the Moldovan passport and not the attractiveness of our country

■ ***However, the authorities say they have provided mechanisms through which we will be protected...***

■ I would say we should be very careful when the authorities operate with terms such as *protection* or *filters* meant to give us certainty and comfort. We saw it also in 2014, in the case of the banking system, and then later, that all the filters provided for with great care by the authorities did not work - they were broken and frauds happened. Because it's not the filters, but the group interests that guide the way things move in our country.

■ ***What are the biggest vulnerabilities of citizenship by investment? Because we may be attractive, but we are still neither Malta nor Hungary...***

■ Everything should be examined in context. In Cyprus, Malta, and Hungary – the examples that our governors refer to - these models will sooner or later stop. In the Maltese and Cypriot cases, it is already stopped ... And there comes the Republic of Moldova, which takes over these harmful models. Clientele with dirty money has always existed. And those who drive the political, economic and financial processes here are trying to catch the momentum and most likely make some money by mediating the

movement of financial and human flows from a rather grey area of the world into a more prosperous one that provides security, such as the European Union. And here comes the greatest vulnerability, which puts us in a very unfavourable light in relation to the EU, creating certain risks: instead of focusing on bringing clean investments in the Republic of Moldova and on generating added value and jobs, we are trying to sell the attractiveness of the Moldovan passport, with which we can travel in more than 120 countries, including in the Schengen area. This was the message sent by Chiril Gaburici in Dubai - the power of the Moldovan passport. The power that was actually given to us by the European Union through the liberalized visa regime and which does not even belong to any Moldovan official, including the Minister of Economy ... In this context, I refer to the 2016 report of the National Anticorruption Agency (CNA) on this Law: ... it is contrary to the interests of the Moldovan citizens who today benefit from the liberalized visa regime and pose threats to the security of our country and its citizens...

■ **How high is the risk of suspension or cancellation of the visa liberalization regime?**

■ Last year, in February, the mechanism for suspending visa liberalization agreements for third countries was approved in Brussels. So, there is a legal mechanism. We are lucky, nonetheless, that the European Union puts emphasis on the citizens of the Republic of Moldova and not on the government. That is why Brussels has announced that it will continue

to support independent civil society and media. Despite the risks created by the authorities with the citizenship offered for money, the Moldovan citizens are unlikely to be penalized in the near future with the suspension of the freedom of movement. But in the future, it depends a lot on what is going to happen in the region, and on the extent to which these risks that we are only anticipating are going to materialize. The decisions in Brussels then could be more categorical.

■ **Compare this concept with the citizenship by investment!**

■ **You mentioned about clean investment. How this investment should actually be so that it is both clean and beneficial to people?**

■ When we talk about investments, apart from the financial component, we also have to take into account technologies and business models that we can bring and implant here. Clean investments create jobs and bring people that get attached to this space, identifying areas where they want to produce, be it agriculture or food industry, or other competitive areas on the foreign market. Especially now that investors can benefit also from the Free Trade Area with the European Union. De facto, clean investments are money that does not seek ways to legalize its origin, but it is perfectly legal in their country of origin and comes to the Republic of Moldova in order to penetrate new markets. So this is what clean investments really mean: creating value added and contributing to the gross domestic product of the country as well as to the people's

well-being. People will no longer have to go to work abroad in order to send money at home.

And now, compare this concept with the citizenship by investment! The Republic of Moldova, through its laws, says that there are two areas of priority for such "investments": 1) real estate, which is but the solution to the problems of those who built houses that they cannot sell today, and 2) state securities, which is rather a loan, not an investment instrument. For after five years, the foreign citizens who will get a Moldovan passport will recover their 250,000 Euros and in addition they will get interest on it. This is a parasitic form of squeezing the money paid as taxes here to the state budget by the "old" citizens.

■ **You referred to "welfare", which was also the key word of the MACRO Conference. How can we achieve the general welfare of people?**

■ In a logical chain of concepts and events, we see welfare as a final point of a circuit that starts from trust. If there is trust, there is credit; if there is credit, there is investment; if there is investment, there is economic activity; if there is economic activity, there is welfare. But trust cannot exist without an honest political system, without a healthy business environment, without rule of law and without guaranteeing the right to property, without functional state institutions, after all. It is very simple, if things were not so complicated in the Republic of Moldova.

■ **Thank you for the interview!**

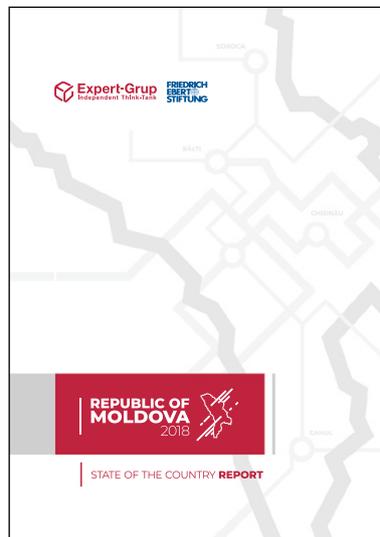
Sorina Ștefârță

Opinia expertului

State of the Country Report 2018: Key challenges and solutions

The Independent Analytical Center “Expert-Grup” in partnership with the Friedrich-Ebert- Stiftung Moldova (FES) has released the State of the Country Report for 2018 at the already traditional MACRO International Conference. As in the previous years, the Report has focused on the developments in areas such as Economy, Labour Market and Social Welfare, Education and Human Capital, Energy, Institutions and Politics, as seen by the four authors of the study - Adrian Lupusor, Denis Cenusă, Iurie Morcotilo and Valeriu Prohnițchi. The special issue of the 2018 Report was “The role of investments in economic and social development”. Here’s a summary of the study, with its key messages. The full report can be accessed at http://fes-moldova.org/fileadmin/user_upload/StateOfTheCountry/State_of_the_Country_Report_2018_en.pdf.

The credibility of institutions and of the Government as a whole remained a fundamental issue undermining the state of the country, without sizable improvements since 2016-2017. Authorities have not given up on the deficient policies criticised by the civil society, extra-parliamentary opposition and development partners. The change of the electoral system just before elections, the unprecedented invalidation of Chisinau municipality election, the initiative to exchange investments for citizenship or the package of laws on voluntary reporting



and fiscal facilities distanced even more the ruling coalition from principles of democracy and rule of law. These measures also undermined other important reforms implemented by authorities in the financial-banking sector or business regulation and, finally, worsened dramatically the Government’s relationship with the development partners.

The Moldovan economy continues to grow slowly following a non-sustainable model. After a recovering growth of 4.5% in 2016, GDP continued to grow in 2017 (+4.5%), but there are signs that it will slow down in 2018 in spite of quite favourable regional context. Such an economic growth rate is not enough to converge

the income to the standards of Central and Eastern European countries during the life span of the current generations. As shown in the previous editions of State of the Country Report, to converge Moldova needs growth rates of GDP closer to 7-8% per year. Moreover, replicating the model of the previous years, the 2017-2018 growth is based more on conjuncture or arithmetic, rather than fundamental factors (e.g. the remittances grew on the background of a low base of comparison and the increase in public investment and social spending is determined by proximity to elections and is hence temporary).

The liberalized access to the European market was one of the key factors that allowed the Moldovan economy to grow and diversify, despite the climate and internal economic stress factors. Between 2015 and 2017, the export losses on the CIS market, caused by Russian trade restrictions and by the conflict in Ukraine, were fully offset by the increased exports to the EU market. The evolution of Moldovan foreign trade in recent years debunked all myths about the destructive impact of EU trade liberalization in DCFTA - on the contrary, exports to the EU have strongly increased, and European import products have not ‘invaded’ the country as many feared (in fact,

the trade balance between Moldova and UE improved during DCFTA implementation).

Low investment attractiveness of the country is the main effect of institutional vulnerabilities, explaining the non-sustainable pattern of economic growth and poor competitiveness. Since 2000, the Moldovan economy has not ever gone through such a long-lasting investment crisis. Investments in fixed assets - both in the private and public sector - declined dramatically in 2015-2016 (-20% compared to 2014), practically stagnating in 2017 (+1% compared to 2016). The investment gap affects the prospects of sustainable economic growth as it undermines the development of new production capacities. This is particularly important for the Republic of Moldova, which has passed through an extended structural transition resulting in physical and functional obsolescence of its productive capital. Moreover, the share of the industrial and agricultural sector - activities that produce the most traded goods internationally - in attracting investment has remained constant over the last few years (around 20% of total investment). For the Republic of Moldova, which does not have a vibrant domestic market and can grow sustainably only through exports, such a small share of investments in activities producing tradable goods is a major issue undermining its export potential.

With the banking system shaken by bank fraud and the embryonic capital market, the Moldovan economy suffers from a chronic shortage of domestic investment resources. Moldovan banks do not fully exercise

their function of accumulating resources and allocating them to finance productive investments. Therefore, investments are most often funded from firms' own resources. It reveals the constraints faced by small and medium-sized enterprises related to access to capital, limiting their investments, development of production capacities and competitiveness. As a result of bank frauds uncovered in 2014, in the near future the country's financial system will remain unable to provide the necessary funds for investment, especially for large investment projects, which makes foreign investment sources even more important.

The proximity of parliamentary elections fostered a series of policies with an obvious electoral interest and major risks to budgetary stability after the elections. In pursuit of higher political stakes for the general elections set for February 2019, the Government engaged in budgetary obligations with popular appeal - 'Prima Casa' -1, -2 and -3, local roads rehabilitation projects, Chisinau Arena, wage increases and more generous indexation of allowances and pensions, introduction of new categories of beneficiaries of social benefits (a principle that was removed with great difficulties in 2011-2014) - notwithstanding the loss of direct budget support from the European Union, the risk of breaking the relationship with IMF and short-term losses of budget revenues as a result of the 'mini fiscal revolution'. These new policies risk reducing even more the public spending on productive investment in infrastructure and human capital. In particular, this could affect the health and education sectors

- both already affected by shortages of specialists, infrastructure and equipment.

Demographic trends continue to be a fundamental constraint for the country's economic and social development. The main risks are related to budgetary pressures. Thus, on the background of employment decline and increase in the number of labour emigrants, the number of people who have reached the retirement age is rising noticeably. In one decade only, the number of pensioners increased by 23%, from 528 thousand in 2007 to 652 thousand in 2017 and the trend will continue inexorably. Raising the retirement threshold offers a temporary relief rather than a sustainable solution to the problems of the public pension system. The demographic changes will also put more pressure on the healthcare sector, as well as on local budgets, especially due to the fact that a large proportion of highly advanced elderly population will live solitary and will need access to social support services. On this background, the level of public and publicly guaranteed debt could increase substantially. These trends are even more dramatic due to intense emigration of the working-age population that intensified recently and relatively low labour productivity. They affect the decent retirement prospects of the current employed population and undermine the country's ability to capitalize on the opportunities of the demographic dividend generated by the demographic changes.

To grow faster and more sustainably, the Moldovan economy needs substantial growth and diversification of exports. In this regard:

- Besides the necessary efforts to modernize the quality infrastructure and implement EU safety and quality standards, it is important that producer associations become more involved in promoting DCFTA. The Government should set up the institutional and legislative infrastructure to reduce transaction costs, to facilitate international trade, and to attract more foreign investors.
- It is important to renegotiate the access conditions for products that face too restrictive barriers on the EU market (quotas under anti-circumvention mechanism).
- The Government must continue its efforts to liberalize access to other partners' markets, in particular for agricultural products. It is important that the Republic of Moldova returns to the Russian market, hence the Government has to free the trade relationship with Russia from any political connotations - to the extent possible when it comes to Russia. Despite the risks, the efforts to negotiate free trade agreements with China, Switzerland, Canada, Israel and some Middle East countries are justified.

The significant increase in exports will be possible only with more investments, especially foreign ones. Therefore, it is necessary to

identify new factors of investment attractiveness for the country. In the Republic of Moldova, the policy of attracting FDIs relies on fiscal and customs facilities offered to Free Economic Zones residents, as well as the relatively low labour cost. It is obvious that the relevance of labour cost could decrease over time due to emigration and rising labour market pressures. Here are the main alternative policy priorities that would spur investment growth:

- As sales (volume of market) are one of the main factors that stimulate investment, it is necessary to promote international trade integration, by enhancing the corporate management efficiency and increasing people's access to consumer credit.
- The business access to long-term bank loans needs to be further improved, especially in the context of the country's weak financial intermediation after the banking frauds uncovered in 2014.
- In order to stimulate investments in advanced industries, the Government must facilitate the inter-branch and, implicitly, territorial mobility of the labour force. This once again highlights the importance of measures supporting lifelong learning. Although the reform of the vocational education sector is seen by the Government as an important priority, the importance

of lifelong learning is under-evaluated. The already active labour force rarely returns to formal education to either improve the existing skills or acquire new ones.

- In order to get a higher investment multiplier, the country needs to develop its domestic supply. This requires industrial, competitiveness enhancement and human capital development policies.
- The investment activity in the Republic of Moldova can be expanded by reforms aimed at improving the functioning of the labour market by carefully liberalizing it, improving the quality of the anti-monopoly policy and fighting informal employment.

Policies to boost investment should also include actions that foster investment in human capital that underpin labour productivity and economy's competitiveness. In any economy the growth in fixed capital investments is not sustainable unless it is accompanied by human capital investments. In this respect, profound structural reforms are needed, especially in the vocational and tertiary education sectors, in order to increase the efficiency of public and private investment in these areas and better match the supply of skills from the educational sector with the skills' demand from the real sector.

The opinions expressed in the newsletter are not necessarily those of the Friedrich-Ebert-Stiftung (FES) or of the Foreign Policy Association (APE).



Foreign Policy Association (APE) is a non-governmental organization committed to supporting the integration of the Republic of Moldova into the European Union and facilitating the settlement of the Transnistrian conflict in the context of the country Europeanization. APE was established in fall 2003 by a group of well-known experts, public personalities and former senior officials and diplomats, all of them reunited by their commitment to contribute with their expertise and experience to formulating and promoting by the Republic of Moldova of a coherent, credible and efficient foreign policy.



Friedrich-Ebert-Stiftung (FES) is a German social democratic political foundation, whose purpose is to promote the principles and foundations of democracy, peace, international understanding and cooperation. FES fulfils its mandate in the spirit of social democracy, dedicating itself to the public debate and finding in a transparent manner, social democratic solutions to current and future problems of the society. Friedrich-Ebert-Stiftung has been active in the Republic of Moldova since October 2002.