

Policy Warning and Forecast Report

ROMANIA IN 2005

edited by

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Romanian Academic Society (SAR)
15 Petöfi Sándor
Bucharest 1, Romania
++4021-2221868
office@sar.org.ro

2005

The year when Romania must live up to its promises

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*Other reports on governance, studies on public opinion
and public policy, as well as the political science quarterly
PolSci, all published by SAR, are available from
www.sar.org.ro*

FORECAST

In mid-January 2005 SAR interviewed a panel of economic experts¹ and asked them what they thought this year would bring in terms of macro developments. We also asked a number of open questions about major events that could impact the economy. This introduction provides a synopsis of what experts answered.

MAIN MACRO INDICATORS IN 2005 – SUCCESS IS EXPECTED IN ALL AREAS

	<i>Average</i>	Margin (min-max)
Growth, % GDP	<i>6,2</i>	5 – 7,5
Inflation rate, %	<i>8</i>	7 – 9
Account deficit, %	<i>6,5</i>	5 – 7
Budget deficit, %	<i>1,4</i>	1 – 1,8
Growth of BET stock market index, %	<i>62</i>	40 – 100

The economy continues to grow, although a little bit more slowly than = in 2004, when the upgrowth was indeed outstanding. Our group of experts still count on a slight fall of the inflation rate and on deficits being held within manageable limits. Yet they were still reserved about official inflation rates which – they said – were just an average of the "real" inflation rate of the urban sector (reliant on the circulation of money) which hovers around 13%, and the rate of the barter-based rural economy which is practically 0%. The evolution of the stock market, which is probably the most unpredictable indicator of all others that we have included on our list, will of course generate the highest margin of variation of any forecast: from a growth of 40% to one of 100%. Both figures are anyhow well above the interest attached to bank deposits or any other financial instruments.

Based on previous experience, SAR is inclined to consider that these figures are realistic – perhaps even a little bit conservative. Similar forecasts that were made a year ago, with almost the same panel of experts, overestimated inflation and the budget deficit by 1% and seriously underrated economic growth (by over 3%), which was the surprise-indicator of 2004.

¹ We wish to thank the following experts for their contribution: Lucian Albu, [Institute for Economic Forecast]; Bogdan Baltazar, Baltazar, Bloom & Pîrvulescu; Radu Crăciun, senior analyst – ABN Amro; professor Daniel Dăianu, ASE; Matei Păun, Romania Think Tank; Ilie Șerbănescu, financial analyst; Liviu Voinea, Group for Applied Economics.

WHAT WILL BE THE IMMEDIATE EFFECTS OF OPENING THE CAPITAL ACCOUNT IN APRIL?

The topic is heavily debated these days and there are talks about the likelihood to postpone this measure until mid-2005 or even the end of 2005 – therefore our question seems all the more relevant. Panel experts agree that the capital inflow will grow and so will the pressure on ROL to rise and thus augment the current account deficit. Yet the range of negative consequences that were predicted to happen just after coming in line with the free international competition varies a lot: from (i) "dangerously destabilising the current account", followed by possible massive outflows of funds over the second half of the year, which would force BNR into intervening to support the ROL; and up to a more optimistic view that (ii) immediate tension will be defused quickly and long-term effects will actually be positive". There are also views that consequences of this liberalisation are overrated though, because "foreigners that really wanted to make the most of the ROL/Euro or ROL/USD interest differential actually did it by way of Romanian *special purpose vehicles* that are already in place".

DO YOU THINK THAT STRATEGIC INVESTORS WILL BUY BCR OR CEC IN 2005?

The unanimous opinion is that existing liquidity, extensive network, etc. is what makes CEC [the Savings Bank] more attractive to any prospective investor than BCR for the time being, therefore if the government is really determined to sell it out, then that can happen in 2005. One of our experts explained that past indecisions are still a deterrent to investors when it comes to BCR: interest to "sever the cord" that connects this bank to the state has not been too great in Romania so far. And the key to success in both cases is a professional and consistent behaviour of the government that should stop sending out contradictory signals just as it did in the past.

WILL THE GOVERNMENT USE THE CAPITAL MARKET FOR PRIVATISATIONS IN 2005, JUST AS THE NEW FINANCE MINISTER SAID?

Most likely yes. Nevertheless – even if it will – the government will still not offer significant stocks, but mostly non-controlling ones. Our analysts told us that, as a general rule, strategic privatisations are not conducted through the stock market. Yet there is indeed a request of new "interesting" companies on the stock market and expectations have been fuelled by recent statements of government officials who are said to become "ideologically and practically compromised", if they fail to put at least some minority stocks on sale.

WHAT IS YOUR ANTICIPATION OF THE MAIN ECONOMIC OBSTACLES THAT THE GOVERNMENT WILL ENCOUNTER IN 2005?

Answers indicated the following: control the deficits (the budget deficit and the current account deficit), avoid the risk of "overheating" economy further to the fiscal relaxation, and the challenge to increase the labour productivity. Additionally, our analysts also talked about enforcing the relevant provisions of the *acquis communautaire*: competition, budget programming, and commercial courts.

POLITICS

HOW BIG A CHANGE?

Romania has a new President and government. But apart that, what exactly will change?

Why elections went the way they did

Romania's 2004 general and presidential elections produced in the end a new government. Since the transfer of power was smooth one could be tempted to put elections behind and look forward to the EU integration of the country. The signing of accession treaty is scheduled for April 2005. However, these elections were not business as usual. For the first time in the last ten years there were allegations of fraud affecting 3-5% of the vote². For instance, research institute IMAS published analysis on electoral data from the ballot day showing significant correlations between invalid votes or supplementary electoral lists, on one side, and the vote for SDP, on the other. In other words, districts where outsiders showed up in large numbers to vote despite being registered elsewhere on permanent electoral lists (and they were therefore registered on supplementary lists) voted significantly above the national average with former government party SDP³. There might have been all along the intent to fraud elections, as transcripts of electoral commission of Chamber of Deputies show the decision not to use voting cards was deliberate. "The OSCE/ODIHR Assessment Mission did not receive any convincing information that explained the suspension of the use of voter cards for these elections. This, combined with the possibility to vote in any polling station, has the potential to open the door for multiple voting", stated the OSCE/ODIHR Assessment Mission. According to the law, no institution is compelled to investigate the fraud, which is supposed to be proven fully by claimants, and no institution had the power to declare elections invalid except county by county. The OSCE recommendation that 'Any such alleged problems should be fully dealt with through the appropriate administrative and judicial processes' was clearly not followed, as the Bureau claimed they do not have the legal entitlement to do any investigation and did not

² By reputed Pro Democratia watchdog, for instance.

³ Analysis is posted on the site of IMAS, www.imas.ro

call on prosecutors to do anything. After two days of public contestation, the bureau granted the right to opposition parties to compare supplementary lists with permanent lists and therefore check for multiple voting. But it was too late, as the electoral law requires that final results are made official 48 hours after receiving the voting results from districts. By the limit of the 48 hours the opposition had not even received, let alone checked, 10 % of the electoral lists and the election was declared valid.

Newspapers documented many instances of multiple voting afterwards, but a final count is not yet computed. The new Romanian Parliament vowed to create a commission to investigate the matter, but even if they proved fraud the vote could not be repeated according to the current electoral law. The General Prosecutor (GP), traditionally appointed by the President at the proposal of government, failed entirely to take any meaningful action in due time. Although tapes made by journalists, including BBC journalists, of buses with multiple voters showed clear evidence it could have been acted upon, GP Ilie Botos declared on December 1st that all investigations would be made only *after* elections. Official figures show that more than 10% of those who voted on 28 November did so on the supplementary lists, either by claiming they were resident but not included in the permanent list (supplementary list 1) or by claiming to be in transit (supplementary list 2). Official figures show 11 000. 000 voters in total, out of which 1 200.000 were on supplementary lists (500000 on list 1 and 700000 on list 2). There was room for considerable confusion, as electoral lists were not updated to exclude about one million and a half people who had died or immigrated in the last ten years. Errors were also reported in the reporting of invalid votes, but the National Commission for Statistics claimed they had asked corrections from districts in due time. Correction often meant that original records of results needed to be retrieved and actually tampered with by presidents of local electoral bureaus in order to set them straight. SDP and Humanists came ahead of DA with a little over half million votes.

The scandal that broke out showed that Romania has nevertheless a vigorous print press and civil society. Despite the electronic media's restraint in covering allegations of fraud, print press, the international media and the domestic civil society managed to spread the news that elections had not been fair. The government was compelled to forbid supplementary lists for the second tour. Despite enjoying an eight percent advantage in the first round, Prime Minister Adrian Nastase lost the second round to challenger Traian Basescu, mayor of Bucharest. Basescu was then instrumental in manipulating SDP's allies, Humanistic Party and Hungarians Union, to form an alliance with DA, based on just one seat ahead that DA had won compared to SPD with Humanists extracted. By end 2004 Romania had a new government after a smooth power transfer.

Fig. 1. Results of elections 2004 in Romania

Parties	House of Senate		Chamber of Deputies		Presidential Elections	
	No of seats	%	No of seats	%	1 st round	2 nd round
SDP + Humanists (RHU)	57 (SDP 46) (RHU 11)	37.13	132 (SDP 113) (RHU 19)	36.61	40.94	48.77
D.A.	49	31.77	113	31.33	33.92	51.23
GRP	21	13.63	48	12.92	12.57	
HDU	10	6.23	21	6.17	5.10	
Total	137	*	332	*		

Fig. 2. Electoral basis of political change

Social structure	Vote SDP	How much it explains	Vote Alliance	How much it explains
Good income	↓	*	↑	*
Young				
Superior education	↓	*	↑	*
Urban	↓	**	↑	**
Inactive	↑	*	↓	*
Reads newspapers			↑	*
Regional development	↓	*	↑	*
<i>Ideology (left-right)</i>	↑	**	↑	***
<i>Ideology (democracy best system of govt)</i>			↑	**
<i>Personality (Trust in presidential candidate)</i>	↑	*****	↑	***
<i>Conjecture factors</i>				
Family member works abroad	↓	*	↑	*
Approves direction country is headed for	↑	**	↓	**
Thinks corruption went up from last year	↓	**	↑	**

*Legend: Factors on the left explain the vote for SDP and Alliance. The arrow up means people with a good income are more likely to vote for the Alliance; the arrow down means they are less likely to vote for the specific party. A complete model including all determinants for the vote in the same time is coded with six *. One star means a sixth of the total variance explain by the model, in other words, of the explanatory power of the model. Two stars mean the determinant explains a third, and so forth.*

Data: two Gallup International polls predicting results for November 28 elections. The table summarizes three regression models of electoral behavior.

Beyond allegations of fraud, the former opposition did not do so well in legislative elections. The electronic media has shown bias in favor of the

government party before and during the campaign. But nevertheless the campaign produced more opportunities which were not followed. Demobilization of urban areas, the main playfield of Romanian elections was very high end September (reaching 60% in some Transylvanian counties) and instead of addressing this main source of votes the alliance D.A. was following an erratic campaign trail, especially through subsistence voting areas, where its chances of being voted were nil. Subsistence voting areas have only SDP mayors and rural elites are as a ground rule instrumental, by controlling resources, in securing the vote of the whole village for their party. The change of presidential candidates did not bring the needed mobilization. The alleged fraud and the media bias favored SDP, but the low score of the opposition is due to its amateurish electoral research and the overall mediocre standing on TV. The fraud scandal supplied the needed factor of mobilization, but if it would not have been for the scandal and the mobilization of civil society against SDP it was unlikely D.A. would have succeeded by itself to make its candidate a winner.

To be fair towards Romania's centre-right, one should examine the voting models. They show some older features of Romanian electoral behavior, but some new ones as well. For instance, age is a weaker predictor than it used to be in models predicting the vote for center right. Regional development and residence in urban areas remain strong predictors. Ideology is less important for SDP voters than for Alliance's voters. A comparison between the determinants of the vote and the campaign strategies is telling indeed. The strengths of DA's campaign were as follows:

- Investment in cleaning the list of controversial candidates, leaving SDP in a difficult position.
- Good investment in drafting a program, giving the impression the alliance is well prepared to govern.
- Use of young people, which succeeded in promoting the idea that the Alliance relies on a new generation.
- Timely initiative on pensions, which managed to establish in the public opinion that the Alliance preceded the SDP in getting the pensions straight.

The weaknesses of DA's electoral offer in relation with the voting models were as follows:

- Too much investment in captive rural areas and insufficient investment in developed areas, such as Timis county, where turnout was very low. The electoral offer for many of these areas, not just in terms of program, but in terms of people on the lists, was inadequate and demobilized voters.
- Too much weight on the 'maverick' flat tax which could not have possibly interested directly more than a fifth of the constituency, but could seriously alienate larger numbers due to the leftist propaganda that 'it only brings advantage to the rich'.
- Alienation of a category of voters to attract another, like claiming raise of pensions will be fed from taxes of Romanians working

abroad, a category which, as Figure 2 shows, was in fact significantly supporting the Alliance. Alienating a group of voters which is likely to vote for you in exchange for the doubtful support of another for an unrealistic promise is erroneous.

- Considerable disorder in the electoral themes hierarchy, creating difficulties in understanding what the main message was.
- Insufficient use of credibility transfer. The transfer of credibility was used only as a last resort, and reduced to few public characters.

Models also show two serious *social structure limitations* of D.A.'s electoral accession: the rural residence (for the reasons explained above) and the inactivity. Despite having a good electoral offer for pensioners, and managing to attract some pensioners' votes, DA was significantly less voted by inactive people (adults without a permanent working contract with self-employed, students and business owners extracted). People working with a contract are disproportionately few seeing Romania's demographic situation, just around four million. This means that there are important limitations to persuasion for DA: it also means that only a change of social structure, more development, a different ration between the inactive and active population and a decrease in subsistence farmers are the keys to create a larger pool of votes for the center right. *These developments cannot be brought about by persuasion campaigns, but only by social and economic policies.*

WHAT WILL THE MAIN CONTENDERS DO IN 2005?

The DA Alliance: One step at a time

The alliance was a success so far, and it has no serious problems. It is a good idea to turn it into an ever closer union. DA should create unique coordination bodies at all levels, so organize itself as one party, while keeping, however, separate judicial identities and separate international affiliations. Succeeding in governing should be the number one priority this year, not building a unique centrist party. DP should boost its profile within the Socialist International, and not leave all the room there for SDP. A Liberal statute entrusting most power to PM Tariceanu is the best solution. Nobody needs internal censorship from one's party while in government. A possible fusion should again be discussed after one year in government. The fusion should be driven by internal need only, not by the illusory target of joining EPP in the European Parliament. Firstly, Romanians overestimate the influence of the EP and miss to see that most of the influence at the European level is not at the Parliament's level, but the Council and the Commission, where traditional diplomacy works still very well. In more advanced European countries, politicians go to EP after giving up domestic politics, where the real stakes are. Secondly, in no other country on earth did two parties do something in order to fit to European Parliament. Thirdly, no Orthodox country has ever seen something like Christian Democracy, which is an organic Catholic movement, embedded in the grassroots of Catholic community organization. There is no way that Romania can

have a powerful Christian Democracy, a concept imported with little understanding. Not only the two parties within the Alliance do not need anything 'popular' or 'Christian-Democrat' to preserve their constituency, but also Romanian National Peasants cannot possibly hope to be revived as *Christian Democrats*. They should instead reinvent themselves as National Peasants.

SDP: Finding the Third Man

Ion Iliescu is intent in hand picking his successor, who is unlikely to be Adrian Nastase. Several SDP leaders who claim they try to reconcile the two camps are in fact candidates for the 'Third Man' position and queue to being designated by Mr. Iliescu. No veritable 'Third Man' exists, unfortunately, to lead SDP on a veritable third way, blaming the infamous transcripts on their main characters and starting afresh with those who have not compromised themselves. Possible names would have been Mircea Geoana, Mihai Tanasescu, Ioan Rus, Sorin Oprescu, but for now the party is so squeezed between Iliescu and Nastase that no room exists for anyone else. As Mr. Iliescu has always been an indecisive man, it might turn out that no Third Man is appointed in the end and SDP from fear of a split ends up with an unworkable collective leadership. For a Third Man to emerge a Third Wing would be needed. And this does not exist so far, as more reform minded SDP recruits of last years (like the above mentioned Mr Geoana or Tanasescu) were first asked to serve alongside the rest in filthy domestic politics, so to become part of the network. This SDP strategy that nobody should be allowed to be better and cleaner than the rest led to the unprecedented credibility crisis that its leaders face now. The public enemy of December, Ion Iliescu, who freed Miron Cozma, is again the undisputed power broker of the party. No reform can succeed where there are no reformers.

AFTER ELECTIONS

What elections solved: the dismantling of SDP's power monopoly ends the major cause of corruption in Romania

Beginning December 2004 Romania had no longer a credible government. The leaking of SDP leaders' transcripts and the allegations of electoral fraud had by then succeeded in creating the impression even for some SDP supporters that their party should no longer be in government, but pause in order to reform itself. The bailing out of client company RAFO and the pardon of miners' leader Miron Cozma by Ion Iliescu all contributed to the crumbling of SDP legitimacy. Under these circumstances the arrangements for an alternative government could only succeed. The power equilibrium of elections is nevertheless reflected not in the government, but in the Parliament, where the new governing coalition has a frail majority and lost key positions to SDP.

Under these circumstances, what the elections solved so far is only the supremacy of one party and the administrative state capture derived from it. SDP lost the power over pardoning arrears and putting on hold corruption investigations. And this is important. It represents in itself the

greatest step against corruption in the past years. Unfortunately, great as it is, it is not enough.

What elections did not solve: Various forms of capture still persist

Unfortunately, Romania did not suffer from administrative state capture only, meaning the use of administrative public resources for the needs of the former government party, but also from other forms of capture, less formal, but equally important. Two should be a priority of the current government: judiciary and media capture.

What does this mean? The current report means by 'capture' the undue influence by 'captors' (oligarchic networks of influence) over what should normally be autonomous areas, such as media or the judiciary. As Romania is a young democracy, nobody expects that either journalists or magistrates are perfectly objective and non-partisan. What is expected, more generally, of the journalists' class and the magistrates' class in transition is that they reflect a plurality of views. Out of pluralism some imperfect objectivity should result. But pluralism was seriously affected in the last two years of SDP dominance, and, as SDP transcripts show, with intent also. As a consequence, an important part of the media and the judiciary became captured by oligarchic networks of influence featuring a relatively small number of people. These networks delivered to SDP governments the goods required: propaganda instead of fair media and biased judgments instead of fair justice. They were not affected by political change, and recent legal developments actually worked to their advantage: the magistrates can no longer be subjected to any open political intervention due to their self-government by Superior Council of Magistrates, while the media, being largely private and unregulated, is largely unaccountable to any official bodies.

1. Judiciary

There are indicators showing capture of the judiciary. Freedom House's score continues to be worst of all accession countries. Romania's score equals Albania's and is far worse than Bulgaria's. In a 2004 survey conducted on judges and ordered by the Ministry of Justice itself, half of the respondents considered that political pressures did exist⁴. However, only 19% reported direct political influence, with an additional 16% reporting direct influence, and 6 % pressure exerted by the administrative leadership of the courts. The situation is even worse in the case of prosecutors. No major corruption case was completed prior to elections except for the privatization of the fleet, a dubious political case. The media alleged that the file is poorly instrumented, that even the number of the commercial vessels under discussion is mistaken. Since beginning of January, a row of investigations started, ending with charging of quite a few famous businesspeople known for the protection they enjoyed in the former regime. The national Anticorruption Prosecutor also started to investigate SDP transcripts, and the General Prosecutor started to investigate the electoral files. All these investigations, however, feature too much on TV and resort excessively

⁴ Institute of Criminology, 'Evaluation of the integrity and resistance to corruption of the judiciary', 2003.

to the old arsenal of intimidation, such as preventive arrest. In the past years these spectacular investigations led to poor files, lost cases and disappointed public expectations.

Fig. 3. Rule of law indicators compared

Judicial Framework and Independence	1997	1998	1999	2001	2002	2003	2004
Albania	4.75	5.25	5.00	4.50	4.50	4.25	4.25
Bosnia	-	6.00	6.00	5.50	5.25	5.00	4.50
Bulgaria	4.25	3.75	3.50	3.50	3.50	3.50	3.25
Croatia	4.75	4.75	4.75	3.75	3.75	4.25	4.50
Kosovo	-	-	-	-	-	-	6
Macedonia	4.25	4.50	4.25	4.25	4.75	4.50	4.00
Romania	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Serbia and Montenegro	-	5.00	5.75	5.50	4.25	4.25	4.25
Slovenia	1.75	1.50	1.50	1.50	1.75	1.75	1.75

Source: Freedom House Nations in Transit 2004, www.freedomhouse.org/nit

Legend: Scale from 1 to 7, with seven the worst performance.⁵

The legislation passed in 2004 was supposed to bring fresh life to the judiciary. Instead, as it was conceived with minimal preoccupation that the judiciary should also perform, not just be independent, it risks transferring the conservatism of the Justice Ministry to the Superior Council of Magistracy. Furthermore, it leaves a vacuum of leadership in a crucial period, that of the anticorruption campaign. For instance, Romania will be assessed by the EU in March for the progress of its anticorruption efforts. Despite the need to push for timely and better quality investigations, the new legislation shields prosecutors from any assessment of their performance. Article 53 of Law 303/2004 claims, for instance, that the prosecutors with a managerial position can be revoked by President only at the suggestion of SCM and only as a disciplinary sanction. The current interpretation of this article is that only by granting to a Prosecutor an ordinary sanction (legal reasons for this

5 This Freedom House indicator is established by experts considering the following criteria:

1. Does the constitutional or other national legislation provide protections for fundamental political, civil, and human rights? (Includes freedom of expression, freedom of conscience and religion, freedom of association, and business and property rights.)
2. Do the state and nongovernmental actors respect fundamental political, civil, and human rights in practice?
3. Is there independence and impartiality in the interpretation and enforcement of the constitution?
4. Is there equality before the law?
5. Has there been effective reform of the criminal code/criminal law? (Consider presumption of innocence until proven guilty, access to a fair and public hearing, introduction of jury trials, access to independent counsel/public defender, independence of prosecutors, and so forth.)
6. Are suspects and prisoners protected in practice against arbitrary arrest, detention without trial, searches without warrants, torture and abuse, and excessive delays in the criminal justice system?
7. Are judges appointed in a fair and unbiased manner, and do they have adequate legal training before assuming the bench?
8. Do judges rule fairly and impartially, and are courts free of political control and influence?
9. Do legislative, executive, and other governmental authorities comply with judicial decisions, and are judicial decisions effectively enforced?

are unrelated to the management capacity which is under question) one can dismiss him or her from a managerial position, which is absurd. The judiciary cannot be expected to perform, especially in the field of anticorruption, if neither prosecutors nor their bosses cannot be evaluated for their performance.

Recommendations:

The Ministry of Justice, together with the new under consolidation SCM should therefore together identify and enact a strategy which should:

- Raise the quality of investigation and prosecution in anticorruption cases.
- Create clear performance indicators, which attract dismissal if unfulfilled
- Start immediately a professional audit procedure into the last year performance of anticorruption prosecutor office and General prosecutor. GP has fought against transparency legislation in Court, and initiated extraordinary appeals against final decisions of Supreme Court of Justice. .

The General Prosecutor should immediately pull out from all extraordinary appeals (old SAR recommendation) now after the extraordinary appeal was dropped both in civil and criminal courts. It is rather hypocritical to claim to the EU that Romania gave up the infamous extraordinary appeal while tenths of cases go on. It will save money for the taxpayer if these cases are stopped before reaching Strasbourg.

The President of Romania, who took over the anticorruption strategy and made it his flagship, should definitely be proactive in reforming the anticorruption establishment. The audit demanded by the European Commission might produce a series of useful recommendations. In any event, without improving the performance of these institutions the risks for the campaign remain important. It is not enough that politically obedient prosecutors now rush to investigate those they shielded six months ago. They must also produce reliable evidence and get some convictions.

2. Media

The media capture is reflected in Romania's Freedom House press freedoms score, *the worse of all candidate countries*. Some indirect indicators of informal capture of the media are the tax arrears of the media outlets, the decreasing audience of news and current affairs programs at main TV stations, the small number of pundits on air, the same on every TV network. Media capture seems to be in some relation with the perceived influence of the media. In a recent survey of ECE ministers, Romanian ministers appear to be losing most time to discuss the media in the cabinet, but least time to wrap up their decisions in suitable media format. This is a recipe for disaster. In any event, media seems to influence greatly the government's agenda. One more reason why the governments feel a need to control it.

Fig. 4. Freedom of the press scores in EU accession countries

Country	Legal	Political	Environment	Total	Status
Bulgaria	10	13	12	35	Partly Free
Czech Republic	6	10	7	23	Free
Estonia	6	5	6	17	Free
Hungary	4	8	8	20	Free
Latvia	7	4	6	17	Free
Lithuania	5	7	6	18	Free
Poland	6	6	7	19	Free
Romania	13	19	15	47	Partly Free
Slovakia	8	7	6	21	Free
Slovenia	3	9	7	19	Free
United States	3	6	4	13	Free
Britain	4	8	7	19	Free
Germany	5	6	5	16	Free

Source: Freedom House 2004, www.freedomhouse.org

Legend: Greater scores mean less freedom.

Fig. 5. How influential media is?

Country	Topics ⁶	Time	Presentation	Substance	Specific newspaper/TV channel
Bulgaria	44	24	44	44	16/16
Czech Republic	10	10	43	5	10/0
Estonia	56	53	66	33	33/33
Hungary	40	35	43	45	10/10
Latvia	53	48	48	43	25/23
Lithuania	70	59	65	56	41/27
Poland	56	53	56	27	22/7
Romania	49	73	27	24	46/33
Slovakia	23	64	9	14	0/0
Slovenia	33	57	24	19	38/24
ECE	47	49	45	33	25/18

Source: SAR Project database⁷

6 Were the media most influential...

...on the topics of cabinet discussions?

...on the amount of time given to cabinet discussions

...on the presentation of cabinet decisions

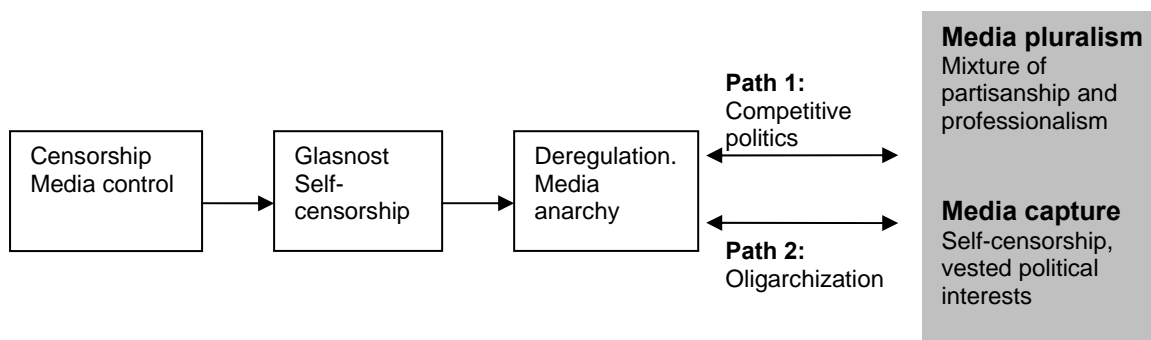
...on the substance of cabinet decisions

Is there any specific newspaper which has influenced your decision-making?

Is there any specific TV programme which has influenced your decision-making?

The main source of problems of the media in the last years is, like in Russia, oligarchization. In all east central European countries the transformation path of the media turned at some point to pluralism due to competitive politics or fell back to self censorship again due to concentration of power and resources. Self censorship is not new for Romania. One of the few reforms of Gorbachev that Ceausescu copied was the giving up of specialized, political censors, to replace them with normal editors with the task to demand compliance from journalists.

Fig. 6. Path dependent models explaining media freedom



The changes brought about by the 2004 elections do not mean automatically that the media problems are over in Romania. Naturally, the new power will be granted more access and coverage. But the electronic media which sinned towards accurate coverage due to tax arrears to the state budget should not be considered as fully on the side of pluralism and democracy. And it certainly cannot be relied on to promote civic journalism.

The solutions for mass media should be differentiated between the public and the private media. However, in this sensitive field one cannot rely on the government to act alone. To have a positive effect on the media system action should be taken jointly by the government with civil society and media organizations.

Recommendations:

To public broadcasters

- Romanian TV has in key positions people whose contracts with Ceausescu's secret files were published by the media. These persons should at least be suspended from their executive positions. The recent report of the Ethics Committee points to severe infringements of editorial rules with severe consequences such as political bias, and no steps were taken to replace responsible executives.

⁷ The database on decision making in ECE cabinets was created as part of a project directed by Ferdinand Muller Rommel and Jean Blondel. The data for Romania was collected by Romanian Academic Society. A first report on the comparative database was published by Muller Rommel et al in European Journal of Political Research, fall issue 2004.

To mass media committees of the Parliament

On public broadcasting: Mass media committees of the Parliament which have the legal right to hold TVR accountable should start an investigation into the ways TVR sees fit to fulfill its public mandate and spend taxpayers' money. The credibility and audience of news on Romanian TV, despite its monopoly on broadcasting in rural areas, has fallen beyond even small commercial stations. It is not normal that everybody pays license tax, but just 2% watch public television news. In other ECE countries public television managed to keep audience of news programs, despite losing on entertainment, due to its effort to make in-depth coverage, different from the infotainment present on private TV. The Parliament should act on two different paths: on one hand, to suppress current abnormalities, on the other to change legislation to give more freedom to public TV. However, the first path is as important as the second, as no legislation can protect from corrupt practices. The only imperative legal modification is to regulate conflict of interest at the level of the TV board. As the law looks now it is legal to sit on this board and grant funds to yourself, your family and your department, if you are a TV producer.

For the long run, the second path should lead to a revision of all current legislation, so to bring some civil society in the boards, alongside political members, and to grant the right to appoint general directors of public broadcasting agencies to a broadcasting council, not the Parliament. There is no ideal solution to end political subordination of public broadcasting, but furthering it one step is certain to help.

On private media: Romania should consider regulating the use of public advertising as well as ownership of private media, which is often non-transparent.

GOVERNANCE

ECONOMY AND GOVERNANCE PRIORITIES IN 2005

How to achieve maximum output with minimum costs

2005 is going to be an extremely busy year for the new government of *the DA Alliance*, which has a number of issues on its emergency agenda associated to both political action and the executive governance. As we have already pinpointed in the previous section, SAR believes that the new ruling parties will benefit the most if they focus primarily on governance, proving speed and high performance over the first half of the year and postponing political clarifications for the second half of the year, or later. Incumbents do not have too much room to manoeuvre anyway since the road map drawn in Brussels is demanding and tightly deadlined (see page 20 for a summary of the monitoring conditions that Romania is supposed to satisfy in terms of "Justice and Home Affairs" and "Competition"), and these measures require attention from topmost officials and resources in order to be implemented properly. They can no longer be delegated to junior secretaries of state, as it was the case so far, whose task was to keep the foreign partners busy.

Moreover, once negotiations with the European Union were over, a process that actually consisted in signing promises, we are now at a stage where promises must be actually fulfilled. This stage of the game is played by different rules: performance will no longer be appraised based on how many laws have been passed and how many strategic plans have been sent to Brussels, but on tangible action of the government and the related outcome which should be measurable economically and socially. More specifically, Parliament's slow pace or non-cooperation can no longer be used as an excuse: out of the 11 urgent measures that Brussels has required to be implemented until March and that are detailed on the next page, just one involves legislative amendments; the others can be taken by direct action of the government.

Nevertheless, these 11 measures are just the beginning and the government knows it. There are many other economic and administrative measures outstanding that should have been implemented over the past years and that must be finalised immediately, even in 2005 – insofar as possible. All involve a significant investment of financial resources, at a time where resources are overstretched. This section presents a realistic view of how these priorities

WHAT ARE ROMANIA'S TASKS IN THE FIRST HALF OF 2005

On 17 December 2004, the European Council concluded formally the accession negotiations with Romania. By the time when the Treaty of Accession has been signed, which is scheduled to take place on 25 April 2005, the Government of Romania must prove to the European Union by concrete action that it has complied with the **11 conditions** that were established when the “Justice and Home Affairs” and “Competition” chapters were closed, as follows:

Brussels expects the following in **March 2005**, in terms of **JUSTICE**:

- 1-2. A single multi-annual investment plan** that should accurately reflect the calendar and progress made in implementing the Schengen Action Plan (as amended against the *acquis communautaire*) and in securing a high level of control and surveillance of EU's future external borders. Stress lays on recruiting 4,438 new border police officers and on strengthening control especially on the **Eastern borders** (Ukraine, Moldova, Black Sea).
- 3. An updated action plan and a Justice Reform Strategy** (including a status report on the implementation of the strategy), that should cover the main steps to implement the Law on the organisation of the Justice System, the Law on Magistrates and the Law on the Higher Council of Magistrates that became effective as of 30 September 2004. It should also prove the full functionality of the new **random court case assignment system**.
- 4. Accelerate the fight against corruption of senior officials**, by strictly enforcing the existing legislation and by securing the independence of the National Anti-corruption Prosecuting Office that should also present credible activity reports.
- 5. Commission an independent audit of the results and impact of the National Anti-corruption Strategy** adopted by the previous government, plus an action plan that should lay down clear budget provisions suitable to a more efficient anti-corruption fight.
- 6. Provide proof of a legal framework** that should underlay the individual activities of **gendarmierie and police officers** and their cooperation in law enforcement matters. Additionally, a clear recruitment **plan** will be needed by mid-2005 to fill in the 7,000 police vacancies and 18,000 gendarmerie vacancies by 2007.
- 7. An multi-annual anticrime strategy**, that should provide clear action to diminish Romania's role as country of origin, transit and destination of victims of trafficking in human beings and to prepare every year – starting March 2005 – credible statistics about how this phenomenon is kept in check.

In terms of **COMPETITION** Romania must prove the following:

- 8. A real control** by the Competition Authority **of potential state aid**, including control over how tax, social and energy-related obligations are **rescheduled**.
- 9. Truly functional mechanisms to monitor state aid and the anti-trust policy**.
- 10. Full compliance** with the commitment not to give or pay state aid to steel&iron factories, as per the 1 January 2005 – 31 December 2008 National Restructuring Strategy.
- 11. Allocate proper financial means and skilled human resources** to the **Competition Authority**.

The European Parliament is **scheduled** to approve Romania's EU Treaty of Accession on **13 April 2005** based on how successful Romania will have been in complying with these conditions up to the month of March. Based on the approval of the European Parliament, the Treaty of Accession will be signed in Brussels on **25 April** and will be ratified by all other member states.

The European Commission will present its first monitoring report in May.

The Commission will monitor how Romania actually implements all of the negotiated chapters. The Commission will flag any delay against the agreed calendar and any issue associated to Romania's progress by means of letters of warning, and such failures will also be reported to the European Council. Should these issues or delays complicate, the Commission can recommend to the Council to implement one of the safeguard measures laid down in the Treaty of Accession (economy, domestic market and justice/home affairs).

should be approached, based on three principles: simplification; transparentization; reducing public expenditure – with the benefit of satisfying the IMF requirements regarding low, or probably zero, budget deficit. In other words, we will not repeat here the long list of measures that Romania's external partners have required. Instead we will advance a complementary list of measures that, once implemented, will bring about structural changes easing off the budgetary pressure that other resource-consuming reforms are creating.

The first priority should be to **revise spending budgetary commitments** which are more or less fairly substantiated socially, made by the Năstase government during the election campaign or before. Not all social programmes should be terminated instantly or downsized across the board, because this is not feasible politically anyway. But even voters may perceive well a move to targeted better the expenditures and subsidies, whereas the budget impact will surely be positive. Here is a list of programmes to illustrate this, yet there are quite a good number of them and a systematic review of these programmes may lead to substantial savings and a more efficient social policy.

- **Heating power subsidies** given to producers (power generation plants) must be cut down gradually and that decrease should be partially compensated by directly subsidising end-users (households, through means-testing). Maintaining the current subsidising structure is extremely costly (6,000 billion ROL, *i.e.* close to 1,5-2% of the state budget) and blocks the restructuring process by sponsoring technological inefficiency. Moreover, these are money that go down the drain: the subsidy is included in the price of the heating medium and numerous households that would not need it enjoy it too indirectly.
- **The "croissant and milk"** programme (free meals in schools) should target children from families that really need this kind of support and not wasted in small amounts to children who do not need it (probably most of them don't). Ideally, parents should explicitly opt for being or not being included in this programme, but this selection

would be hard to manage in practice. A more feasible version of social targeting is that schools should separately opt for being or not being included in the programme, since schools do incur some administrative and implementation costs related to it that have never been accounted for. Schools know exactly what the social situation of every student is and schools leaving the programme voluntarily would not create logistic or political problems. The idea to extend the current version of the programme to higher age categories, just as the previous government proposed, should be dropped, at least by the time when the existing system has been reformed.

- Anyway, a broader discussion should start about the **social aspects of primary and secondary education reform**, since there are contradictions in the way it is approached now. For instance, for budget-related reasons, after-school day-care centres that have been in place for quite a while (*semi-internate*, where students spend some time up to 16:00 hours and get lunch) are currently being closed, but on the other hand the government started this costly and inefficient "croissant and milk" snack programme (poor quality food at the wrong hours). Based on EU-funded programmes, day-care centres were found to be among the social services most in demand in Romania nowadays, in both poor and prosperous communities, and many parents are willing to pay the full costs of the service for their children to spend safely some after-school time until they can pick them up. Relevant ministries should have some serious consultations with municipalities and mayors, who have a better grasp of this situation, and based on that to implement a more efficient and less costly policy.
- The program to build **school gyms** should be downsized or discontinued, since it has already wasted a vast amount of public resources. Most gyms built in rural communities or small towns are of poor quality and they burden the local budgets with maintenance expenses (when they were used) comparable with those of the schools nearby. Many of these local authorities already have overdue bills for utilities and they can hardly secure minimal repair works in classrooms. Investments that have been made politically and that were fully paid from the state budget have turned into genuine traps for mayors eager to cut another ribbon without thinking what the future would for them afterwards. In order to make these mayors more accountable for what they do, any such program should only continue provided that local authorities share the costs as a means of rationalising the decision regarding the opportunity of this investment.
- The program **subsidizing salaries** of fresh graduates to incentivise employment should also be discontinued, at least its "universal coverage" version, since it is useless in communities that only report a 4-5% unemployment rate. It could be continued though in stricter terms in areas (counties) where unemployment is indeed a problem among the young.

- Projects that were clearly election-driven and bankruptive should be terminated in some politically feasible way. Some projects are in progress, such as the 90% subsidy of medication for retired persons; other have been enacted but not yet implemented, such as the promise to pay a 25% allowance to the surviving spouse.
- Populist and utopian promises that members of the former government made during the election campaign should also be waived: indemnifying depositors who during the hyperinflation in the early 1990s still had their savings in a CEC account to buy a Dacia car; or the 30 million ROL compensation payable to owners of old cars who buy a new car (which is actually an indirect subsidy to carmakers and which should be investigated by the Competition Council from the standpoint of free competition, and also by the European Commission from the angle of the state aid).

Review priorities against resources and promote free competition

Also in terms of expenditures from the state budget, the government should rapidly materialize its intention to **review the large infrastructure contracts** that previous incumbents started, as transparently as possible and clearly explaining to the public the underlying causes for the decisions that will be made. The primary issue here is not their underlying legal framework and how contractors were selected, and also not the origin of the contractor or the political retaliation that should supposedly be returned, but the huge and unreasonable opportunity costs, which exceeded not just by a percentage – but exceed several times – whatever Romania can afford right now. Reviewed or not, these projects – just as they are now – will come to a dead-end anyway for want of funds, and contractors know that. The most conspicuous case is of course that of the Braşov-Borş highway, which emerged quite out of the blue back at the end of 2003 and that was contracted to Bechtel without a tender, which will always arouse suspicion about the price. The strongest arguments against the project are technical and economic (not the ones associated to the cultural heritage as mentioned by Prince Charles) as follows: Romania does not have and will not have such a road traffic so as to justify two westward highways (this one, plus the one of European Corridor No. 4 that was contracted previously); and there will not be any connection for that on the Hungarian territory too soon either, since the North-East area and especially the route to Debrecen are not a priority to Hungary, unlike the connection south of Szeged; and lastly, the two highways taken together need every year about twice as much as Romania's whole annual road budget is, which can be hardly sustained anyway, since the National Road Authority is already "heavily indebted"⁸. No one knows exactly where the money will come from, in circumstances where no "public private partnership" has materialized and costs devolved fully upon the state budget.

⁸ In the private sector this would mean plain bankruptcy, but sensitive information at the Roads Authority has always been kept under key, so the situation there is hard to assess precisely.

But this is not the only case of a highway contract – and this is not the only example of how the Romanian government mismanaged the sectoral policy. Similarly questionable are the outlays that have been incurred or just accepted for real estate projects via the **National Housing Agency**, which will also have to be reviewed and downsized. Just as with the gym program, local authorities tend to see these zero-cost investments that are offered from the state budget as a windfall that they definitely need to have “while the offer is still on”, although they may not need it, which leads to bad resource allocation and over-investment. This is how real estate property is taken back into public hands, but it has to be properly managed so that it will not be damaged in the future, which is a task that not too many local authorities can do successfully. Moreover, under the protective umbrella of “social housing and new homes for the young”, the National Housing Agency subsidized indirectly many other purely commercial projects that could have been implemented without money from the state, and which benefited people with political connections, and competition on the contracting market was in this way distorted.

At any rate, the incumbent government would better take care when it enters into large-scale procurement or service contracts. Transparency rules must be observed strictly, even in projects associated to national security, such as the one with EADS. For instance, the likelihood is that Romania will soon contemplate the idea to renew its combat aircraft fleet. It would be good if Romania could avoid having these contracts politicized and surrounded by scandals, just as it happened with Central European nations that joined NATO a few years ago.

The principles of **transparency and free competition** must also be strengthened in Romania at institutional level and the government should regard this as a priority. In terms of legislation, the Bankruptcy Law and the Public Procurement Law need to be improved, which is not difficult since people that have been working in this system already know very well what are the means and possibilities to evade anti-competition provisions, and there is enough foreign technical assistance for that purpose. Political decision is what has been missing so far. But the burden should not devolve onto legislative amendments, but on **enforcing existing legislation** – which has always been the weak point in Romania. The Competition Authority should become more visible, independent and active, just like a true police of the Romanian market, and should be headed by a personality of probity, who should no longer fear rejecting anti-competitive measures even when they come from the government. The latest assessment that EU officials have made of the Competition Authority is extremely tough and, since they flagged modest progress, whereas the public floundering of the government over serious cases such as last autumn’s Rafo Refinery Government Ordinance pointed out that the decisions of this authority are far from being politically independent.

The government also owes it to the Romanian public to evaluate and publish the **state guarantees granted to private businesses** that are still valid, as part of the public debt. As soon as we all have seen which is the situation in this area, which is somehow connected to the provisions

of the *acquis communautaire* but which has been stealth to us so far, only then will we be able to talk about the best way to move from now on. Anyway, the practice of these guarantees should be strictly regulated and rules should be enforced in good faith.

Stronger market surveillance should also include talks about the relationship between the Competition Authority and other related bodies, such as the National Energy Regulatory Authority (*ANRE*), the Gas Regulatory Authority (*ANRG*) and the National Community Services Regulatory Authority (*ANRSC*). These institutions are all part of a joint area of policies and shall have to intensify their cooperation as the market develops and the decentralization goes on, to the disadvantage of the large state-owned corporations that are managed directly by ministries. It must be clear that what comes first in all areas is the principle of free competition, which is obstructed in conditions that are well established, based on a unitary practice and vision – which for the time being is not the case with the afore-mentioned bodies, since they do not communicate with each other too much and since they seem to be rather some tribunals that make their judgments according to different sets of laws.

All these changes that have been imposed by privatization, decentralization and the new rules of the European *acquis* will eventually change the **balance of power** among the traditional institutions of the central administration. Ministries that have been so important so far, such as the Ministry for Economy and Commerce⁹, will slip out of business gradually as national companies that were previously under their umbrella are being sold out. The role of market arbiters – such as the ones mentioned above – and of ministries that generate strategies will enhance. The same will happen – further to the decentralization of the major functions – to the Ministry of Education or the Ministry of Administration and Interior. For that matter, public servants all over central bodies will have to be made redundant and retrained, starting from those working on micro-administrative routines for various hierarchical structures and ending up with monitoring social effects and the preparation of sectoral strategies. Since not all public servants will be able to “migrate” toward modern expertise, they will probably have to be replaced.

Political parties should be ready to manage the political effects of these changes that will cause certain market regulatory agencies to become more powerful than economic ministries. These changes should be regarded as a favorable opportunity, and especially the incumbent government should do that, since it needs to implement a major reform of the civil service, a reform that has been permanently postponed in recent years due to lack of courage and vision. The pressure on incumbents is twofold now: on one hand, the excessive pay raises of the public servants granted by the Năstase government during its past months in office, whose effects will start to become apparent in 2005; and on the other hand the need to avoid the overheating of the

⁹ This is the former Ministry of Industry, actually a traditional power centre that used to control the power generation and mining industries mainly.

economy in order to comply with the strict budget targets that have been negotiated with international partners. Moreover, the new law on Salaries in the civil Service that has been promised and postponed for years should also be enacted in 2005 in order to standardize and reorganize the public payment system.

All these factors converge into an excellent opportunity to address all problems at once, in a coordinated manner, as part of the **governance reform**, through a **three-step program**. First of all, incumbents need to establish a calendar based on which to privatize and decentralize some important functions that are now being discharged by central administrative bodies. Secondly, based on this calendar, state institutions and the efficiency of remaining ministries and public agencies can be audited and a rational staffing plan with new job descriptions can be implemented afterwards. In any case, this will not involve an order "from above" to downsize the staff by a fixed target percentage, which should to be applied everywhere, because although some agencies or offices can be completely useless or overlapping, others may be quite useful and should actually be in need of additional staff. The assessment must go on a sector-by-sector and case-by-case basis – yet it is clear that upon the whole the staff will have to be downsized. Lastly, the final step could be to finalize the Salary Law to support the new staffing structure, after its budget impact will have been tested (the technical assistance for that is already in place), which can even lead to general pay raises within the same total budgetary ceiling. Of course, no government likes it to reorganize the public administration and to close down institutions, and this is exactly the reason why this measure has been postponed so often. But this reorganization cannot be postponed for another four years, and since it must be done, then the first year in office is the right time to do so and not any later.

The money is there, but nobody uses it

The irony is that – for quite a while now – **substantial funds** have been available in Romania from either loans or non-reimbursable grants that were meant to help the Romanian government cover exactly the costs of the change, but some funds are not used fully, either because the patience and experience needed to use them is not there or because their use involves a certain amount of transparency that made them uninteresting to Romanian officials. Just as a matter of example, the World Bank earmarked nearly \$1.3 million for the Ministry of Justice under the PPIBL¹⁰ program for the exact purpose of funding the reform in its most sensitive areas that had actually been flagged by the European Union too (the case management system, the equipment of the courts, the consolidation of the Superior Council of Magistrates, new special courts, etc). Until December 2004, for nearly two years, the Ministry had only requested \$200,000 for various projects. Last year's scandal is well-known, when the Ministry of Health did something similar, meaning they disregarded some important USAID grants that had been earmarked as funds for this reform, because the real agenda of the senior official did not coincide with the one announced officially. A good idea would be

¹⁰ Public-Private Institutional Building Loan.

to create – at a central level – a database with **information on the existing assistance** that can be provided from various sources, per terms and sectors (for instance, in the chancellery of the prime minister). This would be not only a good strategic management tool at government level, where people often did not know what was happening in their own back yard, but a proof of transparency too, and would also provide the public opinion with a clearer picture of this area, which is so obscure and fragmented.

The most important funds that Romania will get will be the structural and cohesion funds from the European Union, which have been used through the mechanisms created under Chapter 21 of the *acquis* (regional policies). This is another area that has been more or less ignored, [an area] where Romania is unprepared from many points of view. The mini-crises caused by the absorption of community funds, such as the one associated to the Sapard money in 2004 will recur periodically, because there will be ever more money. When it comes to regional policies, talks in Romania deviate to matters of a symbolic culture, easy to politicize, such as the issue of creating (or not) administrative regions – a matter which is completely irrelevant in the European context. And the attention is deterred from the crucial yet unspectacular task of creating those nationwide institutions that can better manage European funds; and to help the private sector and local governments generate good-quality projects so that these funds can be better absorbed. It is urgent to strengthen the capacity to collect relevant nationwide statistical data (actually the latest Country Report highlighted that issue) and to create a **real-time tracking system** of how these funds are accessed and used and what their impact is – such as an *early warning system* for the European money – so that the government can get timely signals about the absorption problems, and can take measures to avoid the cyclic crises that have occurred so far.

Finally, the government should continue reforms on the “**active**” – *i.e.* the revenue side – **of the budget**. In some areas, there are details that need to be readjusted, but these are important details of the reforms that have been implemented so far. For instance, last December, when the government ordinance that amended the Fiscal Code was amended so as to reflect the unique taxation rate, the authors of the changes overlooked the minor detail that the personal income tax (*IVG* – the global income tax) is shared among various layers of the administrative structures, more specifically 36% of the collected taxes go to the local municipality, 27% to the county authorities and the rest to the central authorities¹¹. Lower *IVG* revenues, even temporary, produced by the tax reform can cause serious troubles at local level, paradoxically in large and prosperous cities where this kind of revenue is high and the local government is generally headed by the *DA Alliance*. Urgent readjustment is needed in order to offset the losses of local governments, preferably by adjusting the shared percentages when the first data about the collection of January-February taxes will become

¹¹ This is just a simplified presentation; the system is actually more complex than that.

available and when the real decrease of the revenues can be seen exactly as it is.

The tax reform must go full steam ahead anyway, because the most problematic issue, which led to a decrease in revenues, has already been implemented. Hence, the measures that will be taken will lead to higher public revenues and a better social equity too. We are talking about continuing the gradual fiscal “neutralization”, on a phased basis, to reach the optimum level where taxpayers that earn the same incomes pay the same taxes, whatever the source of the income, but we are still far from that point. More specifically, that target involves the following:

- Taxes chargeable on capital transactions, bank interests and other such instruments and taxes chargeable on real estate sales (that now are hardly taxed or not taxed at all) should be gradually brought in line with salary taxes;
- Eliminate the multitude of exemptions or preferential treatments granted at various stages to lobby groups (for instance, tax exemptions of income earned by sportspersons, salaries paid to people in the IT industry, etc.)
- Eliminate the absurd “meal tickets” distributed as a non-taxable addition to the salary, at least in the budgetary system. Meal tickets can very well be replaced by a prorated raise of the salary and the basic personal tax deduction, the staff actually enjoying the same amount of money, but the whole (private) industry that prints and distributes these coupons would be eliminated in this way since it does nothing but move money from one pocket into the other at a considerable cost.

REGIONAL

THE REPUBLIC OF MOLDOVA

Is anyone ready for sunflower harvest in Chişinău?

Recent elections in Ukraine and Georgia have opened the door to Europe for two countries that seemed lost for good in the so-called "gray-zone" in the East. However, it seems that Moldova would not choose the same way. The changes that occurred in the two countries benefited from the revolutionary context explained through the existence of an "infrastructure of change", an infrastructure so solid that it prevailed over reactionary forces in terms of both ideology and organization. This section of the report will try to assess whether such conditions favorable to change are present in the Moldovan case as well.

The Communists in Moldova are becoming more and more European

Although some of the press-attaches of the CPM were quick to accuse in 2004 the West of intending to carry out a "special operation" in Moldova, under the name of 'sun-flower upheaval'¹², independent political analysts have concluded that such changes can occur only if there is a strong combination of local and foreign elites consensus on the common objectives which are to be pursued, and values that are to be defended.

But who are actually those local elites, since the Communist party declared its intention of:

- integrating the Republic of Moldova into the EU
- modernizing the country
- regulating the long-protracted Transdnestrian conflict through its internationalization?

¹² The official News Agency, Moldpress, launched this rumor in the summer of 2004, accusing some political forces in the West of willing to multiply the Georgian Rose Revolution in Moldova under the name of 'Sunflower Revolution', and this issue remained a hot-story in the governmental press until the Ukrainian Orange Revolution.

Therefore, one may say that the CPM's leaders were the first to realize that it was useless to fight back 'European calls' in Moldova and, after a number of disgraceful statements¹³, President Voronin announced its vision to see Moldova fully integrated in the EU. The very prospect of reaching one day the European club of 'prosperity and security' was, in itself, enough to trigger the transformation of a communist party, as happened before in Central Europe or Romania. Opinion polls show that 80% of the population considers the integration in the EU as the right thing to do, while 40% of them declare that becoming a NATO member is good, so no one can play anymore with the outdated and ridiculous arguments of Moldova's predestination to remain locked to Russia. As noticed during local elections in May 2003, the Communist Party of Moldova "stole" a lot of ideological slogans from the Opposition in order to create themselves a pro-European image and to increase their appeal to a segment of Europe-oriented reformists. And here is where the strength and the particularities of the ruling CPM in Moldova lay – the incredible capacity to adapt itself to the quick-sand realities of the Moldovan landscape. It was not therefore strange to see President Voronin flanked by President Basescu among other heads of state, invited to Kyiev for the inauguration of the new Ukrainian President, Victor Iushchenko, apparently willing to show that there is not the 'orange' that makes up upheavals, but the 'characters' and he is one of those who are not to be thrown out.

With the gradual worsening of its relations to Moscow, the President's staff (which has a dominant role in the CPM's political affairs) realized that its leftist ideology can be accommodated to the European left-wing parties, and that the 'internal' discourse, oriented specifically to an acculturated and visibly-aged electorate should be also adjusted if not upgraded. Yet the CPM leadership did not denounce its 'communist brand', but many explain this procrastinated inertia rather through electoral reasoning than by the Marxist-Leninist heritage. This is why the CPM Congress has adopted at its ordinary Congress a series of changes to the party program, which include now inter alia recognition of private ownership, multiparty system, and European integration – objectives that that would certainly look more like a left-oriented socialist party somewhere in Sweden or Italy than in the former Soviet Union. Many observed that most of the promises of the CPM in 2001 have been purged from the agenda of the party, while some of them – like joining the Russia – Belarus Union, or resolving the Transdnestrian conflict – have been constantly put under the shelf to the greatest desolation of the CPM traditional voters, which still find difficult to accept that their nostalgias cannot serve as an alternative to the capitalism and EU.

Under these circumstances the stake in the March 2005 elections may not be Europe, as all major political forces define themselves as pro-European, so an important ingredient of the Orange Revolution seems to be missing. However, the energies emanated from Tbilisi and Kiev had

¹³ In April 2001, President Voronin said that the R.Moldova will be like a Cuba in Europe. One month later, in an interview to the Russian news-agencies, he claimed that if the Communists would not won the elections in Moldova, NATO's tanks were then located around Briansk, 200 km from Moscow.

a very important role in deciding for the European destination of Moldova, by providing excellent opportunities to the resolution of the protracted conflicts and unsettled border disputes with Ukraine.

Unlike Ukraine, where the dividing line between the East and West, between pro-Yanucovich camps of nostalgic industrialized Ukraine and a profoundly agricultural, nationalistic, pro-western Ukraine, backing Yushchenko, in Moldova electoral cleavages are less ideological and more determined by social and cultural motivations. Indeed, Moldova has the biggest percent of rural population in Europe and has managed to become the poorest country on the continent. Criticized for going back to the old-fashioned system of 'raions', the CPM succeeded to essentially strengthen its local party-branches, and bring administration closer to top-executive controls¹⁴. Rapporteurs of the Council of Europe tried to determine central authorities to reconsider their plan of re-designing the system of public administration, and only after several debates and expert round-tables in February – March, government officials and Communist deputies showed themselves ready to follow the spirit of the European Charter on Local Self-Governance (ratified in 1997) and improve it quickly after elections. Both the IMF and the World Bank disagreed with the aforementioned reforms, as there were few chances to foresee how the central authorities plan to implement them, and even less, which would be the benefits of the reform for the social and economic growth of the country.

The Current Electoral Alignment

Due to the very high threshold – 3% for independent candidates and 6% for political parties – many of the voters have lost their confidence in elections as such. Moreover, the irreconcilable fractures within the mainstream of the opposition and the lack of its 'unity' also explain the very large segment of still undecided voters (35%).

Compared with the IPP Barometer from November 2004, an IRI/Gallup Survey in December showed a somewhat falling rating of both major contenders: the ruling Communist Party - 39% and the Democratic Moldova - 13%, against the background of the rising popularity of the Christian Democratic Popular Party (CDPP – about 15%) and the Social Democratic Party (SDPM - 8%). Opposition leaders simply refuse to understand that they lost the 2001 elections due to their internal fights and quarrels. Because of their little confidence that they will be able to overrun the ruling regime of the CPM, they have now entered into a coalition which is still weak and unknown to the public.

¹⁴ In March 2003, a Law on local self-governance¹⁴ was adopted against the fierce opposition of the non-communist parties and associations of local governments. Under these reforms, the ten (10) constituent regions (judets) of Moldova were replaced by (32) thirty two districts (raions). This policy has reversed the pace of territorial arrangements laid down in 1999 by previous Governments, receiving praise from the international community. To clear up the road towards its strategic objective, since 2001, the ruling party has initiated a largely contested reform of the local governments, consisting mainly by a territorial re-division of the country, along with essential limitations of the mandate of local governments in budgeting, properties and policy-making.

Moldova lacks a credible and strong Opposition leader who acted as a motor for what happened in Georgia and Ukraine. There is no current politician of the Opposition ranking as a national leader in the electorate's eyes. With the exception of Serafim Urechean (14%), the second after Vladimir Voronin, but at a very large distance in ratings – 26%, the rest of the Opposition leaders remain almost unnoticed by conventional electorate (Dumitru Braghis – 4%, Oleg Serebrian – 3%, Oazu Nantoi – 3%)¹⁵. Despite a relatively good position in ratings (9%), Iurie Rosca's popularity was seriously damaged by a record-rate of non-confidence (41%), followed by Voronin (15%), Braghis (5%) and the former presidents Snegur and Lucinschi.

On the other hand, it might be admitted that Moldova has some tradition with respect to another element of the Orange Revolution, i.e. a relatively wide social basis for easy-erupting mass rallies and other forms of organized protests. In fact, Moldova gained notoriety in the last decade for successive waves of mass-protests, student's strikes, non-stop demonstrations and, quite recently, by mob-protests, much more spread than in Kiev, Minsk, or even Tbilisi. Thus, in 1995 students protested against the 'unlawful' introduction of Moldovan-history textbooks instead of Romanian History for more than 2 month, while in 1999 students protested against cancellation of social benefits and clashed with police for over one month. The students have been also hurt by the elimination of some social "privileges", which sparked protests far more spectacular than those of a few sympathetic loyalists of the Opposition parties. Moreover, since January 2002 till April the same year, the opposition assembled a 'city of tents' in front of the Presidency and the Parliament buildings in Chisinau, where they stood up against perpetrated abuses on the 'cultural rights' of the titular-group, and protested until the unpopular decisions of the Ministry of Education were finally canceled.

Abandoning the pro-European rhetoric and the grand idea of a 'social pact' for the entire society, the CPM's leaders have immersed into a campaign of expelling the 'Romania-minded' professors and courses from the universities, while denouncing 'brain-washing' and foreign interventions from the neighboring countries. Protests were so strong that former presidents Lucinschi, Snegur had to admit that the quick erosion of their credibility and popularity score was a direct result of the street's resentments. Every time people stand up for their rights, they send the kind of message that is then articulated through a protest vote in elections. Lastly, the refusal of the President Voronin to sign up the Kozak Memorandum¹⁶ can be also explained through a massive wave of public unrest and street-demonstrations that exhilarated the capital city life for more than 3 months during the fall of 2003. Massive protests served as an excuse for the President Voronin to refrain himself from undersigning the Russian-proposed Memorandum, which has thus largely infuriated the Russian President, and made his advisors blame

¹⁵ IRI and Baltic Surveys/ The Gallup Organisation, Moldova National Voters Study, November 2004

¹⁶ October 1-3, 2004, The Wall Street Journal Europe, An Opportunity on the Dniester, Vladimir Socor

Voronin for being 'politically irresponsible and inconsistent'. Some observers still believe that this short episode allowed him to build up a new image as a 'country savior' against perpetrated foreign plots.

As could be expected, the CPM electoral list is headed by the party leader and President of the Republic of Moldova, Vladimir Voronin, followed by Parliament Chairwoman Eugenia Ostapciuc, Prime Minister Vasily Tarlev, several ministers and so on. The fact that these personalities are among the 'first 20' candidates indicates that the CPM's electoral stake is based on the positive results achieved during the last 4 years, particularly in the economic and social spheres: a higher GDP, increase of pensions and salaries, but also the attempt to 'clean' the CPM from corrupt elements.

The CPM Platform does not bring any big surprises either. Its main topics refer to the legal and social protection of Moldovan workers abroad, to increasing the average monthly incomes up to \$300 equivalent [currently about \$100], to the tripling of salaries and pensions, and to the increase of State-funded places in higher educational institutions. However, considerable changes can be noticed with regard to the Foreign Policy Program, as the Communists – unlike 4 years ago – are not promising any more that Moldova will join the Russia-Belarus Union, or that Russian shall become a second official language in this republic. These two 'omissions', combined with the active pro-Europe attitude of the ruling party in 2004, seem to have caused the fall of the CPM's popularity rating. Those citizens who supported the Communists in 2001 primarily because of their clear-cut pro-Russia stance were definitely disappointed. Despite this trend, one could hardly expect that the CPM's popularity rating would drop below 40%, which would still allow the party to assure itself a significant number of seats in the next Parliament. They might prove unable to ensure a similar rate of success as in the February 2001 elections, but they have quite a bit of chances to retain at least a simple parliamentary majority, which will allow them to elect the Chairman of the House and seriously influence the creation of the Government, where their people will form an overwhelming majority.

Yet there are unresolved issues from the previous elections that still represent a major handicap to the ruling party. Thus, corruption is clearly spread out and has been criticized by the CPM only in what concerned their political enemies, although the 'agile and connected' relatives and friends of the acting President Voronin became quickly a kind of 'etalon' conduct to other business groups. Moreover, those who did not obey the rules imposed by this network became subjects of exaggerated taxation and tough pressures from the tax-control bodies. As a result, seeking protection from the state and party nomenclature, melted with various forms of favoritism, easy-assigned contracts without open tenders, or bribes for some 'strategic jobs' in the customs, ministries and state agencies, form a kind of 'El-Dorado' business for the CPM, where various clan interests are pursued and oligarch networks are designed. At the same time, the control over the judiciary allowed the CPM leaders to reign almost undisputedly, as there is little risk that its members would be prosecuted and indicted for their abuses.

Particularly painful was to see how the CPM treated independent mass media and local authorities. Physical attacks against journalists in July – August 2004, and dismissal of the most active protesters from the public TV Company were particularly serious matters, which brought these cases to the Council of Europe and the EHRC¹⁷.

The three main contenders creating the non-communist Opposition are the traditional CDPP (former Popular Front), the Social-Democrat Party and the Democratic Moldova Bloc (incorporating the Democratic Party, the Social Liberal Party, the Liberal Party and the 'Our Moldova' Alliance). Some of these competitors were quick to declare that Moldova will follow after Ukraine, and the 'orange' has been announced to become the color of the vociferous Christian Democrat Popular Party.

The Baltic Survey held in December 2004 indicated a certain ascent of the voting intentions for the CDPP (15%), in a pair with the SDP (8%), while the DMB remained at 14%. What is still astonishing is the high 'non-answer' response (37% in March, and 35% in November, 2004). The survey also shows a decline of the ruling CPM (38%, down from 47%, in March 2004), although the large disparage between the Communists and the rest of the opposition (over 20%) has not decreased significantly. Certain political analysts argue that such a difference is explained by the several internal drawbacks of the largest centrist-based election block during pre-election arrangements, as these parties showed unstable and unable to commit their leaders to a long-lasting winning effort. The lack of a long-term strategy of winning elections, as well as the poor visibility of its leaders left the voters largely unaware about the political identity of the block.

Probably the biggest mistake of this Block was electing the current Mayor of Chisinau, Serafim Urecheanu, as its official political leader. As following events showed, Urecheanu became quickly one of the favorite targets of a fully-fledged blackmailing campaign on issues of corruption, staggered by the CPM. Under these conditions, Urecheanu found it difficult to comply with two difficult missions: on one hand, he had to defend himself and his entourage from corruption allegations and, on the other hand, he was expected to articulate and deliver to the potential voters a message reflecting the particular profile of the block of centrists-liberals, social-liberals and democrats.

Different from the MDB, the Christian Democrats were the first party in Moldova to have reacted to the events in Ukraine and Georgia, and to have declared 'orange' as the color of their election campaign. The party adopted wearing orange ties, scarves, and vests, proclaiming that 'orange' is the color of victory in the upcoming elections.

¹⁷ According to the Article 19 conclusion, the 'public offenses made by the authorities were not only violations of the right to freedom of expression, but also of the right not to be subjected to ill-treatment, protected by Article 3 of the European Convention on Human Rights (ECHR), Article 7 of the International Covenant on Civil and Political Rights (ICCPR) and the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT)¹⁷; and the right of security of person, protected by Article 5 of the ECHR and Article 9 of the ICCPR.

The conclusions of the IRI/Baltic Survey indicates that the CPM is trusted mostly by elderly voters (over 50 years of age) and rural population; in turn, the CDPP is trusted by younger voters and rural residents, expressing a more pronounced Romanian identity; the Democratic Moldova Bloc seems to be trusted mostly by younger voters, as well as by those democracy-oriented public officials; the Social Democratic Party is trusted mostly by middle-aged voters and rural population.

But who are actually the most sensitive supporters for a change in power? The first and, perhaps the largest group that feels insecure under the ruling Communists might be called 'the white-collar', middle-class representatives: managers and entrepreneurs, patent-holders and experts, lawyers and intelligentsia who feel threatened by the regime, while seeking to establish their own 'class-based' priorities of the state on an exclusionary manner. The main source of their irritation is the incompetence, arrogance and interventionist character of the new ruling nomenclature of 'party-appointed clerks' in almost every aspect of public life in Moldova. Tax-evasion by 'party-beloved patriots', as well as indirect taxation of the business forced to contribute to various monumental experiments of the Communist rulers were rather the rule than the exception during the last 4 years. At the same time, persecutions and arrests of Opposition leaders were pursued as an example for anyone who would 'dare' to challenge the authoritarian decisions of the President Voronin.

The second such group consists of students, who were repeatedly libeled as being connected to the 'anti-statal politicians' and whose vote is clearly a non-communist one.

The third group of anti-communist voters is made up of those surviving on the money received from their relatives working abroad. To many of them, the insistent claims regarding the continuous GDP growth rate seem nothing more than a gloomy joke, which extensively alienates political discourse from the reality.

A fourth group of discouraged belongs to the so called 'Russian-speakers' who felt themselves humiliated and abandoned due to the sudden change of Voronin's priorities.

The success of the CPM in reducing the public political space to absolute minimum has left the Opposition without a meaningful presence at the national level. It is hardly possible to expect that the activists from these groups will unite like proletarians of all countries in the old Communist slogan. But the erosion of a once solid and vast support base for the CPM is unmistakable.

This does not sound very encouraging for those politicians that would like to rely on a higher rate of voter's participation, and who by virtue of their minority statute in the legislature, have no chance to amend the Election Code, by bringing those citizens residing outside of Moldova to vote in the upcoming elections. Nor were they able to downgrade the election threshold set up at 3% for independent candidates, 6% for parties, and 9% for two-party election coalitions.

The Regional Context

While many in the West were keen to point to the serious 'personal defeat' of President Putin in the Ukrainian elections, few were to remind to the public on the quick transformation of the older 'frontal habits' into something that is reassembling a combination of protectionist capitalism with imperialist flavor.

It is noteworthy that during the entire run-off in Ukraine, Vladimir Putin did not even try to hide his sympathies and unilateral back-up to one of the competitors. He visited Ukraine twice to publicly announce his support for Yanukovich, while a huge number of Russian PR- consultants close to him played a major role in shaping both the strategy and the message of the Yanukovich campaign. Hundreds of millions of dollars went into these elections, which were described as a kind of the last outpost for Russia to show its geopolitical influence in its 'near abroad' – already a 'new neighborhood of the EU'. As protests in Kiev gathered momentum, Putin asked the outgoing President Leonid Kuchma, eager to secure a safe retirement amid charges of corruption and political violence, to declare Yanukovich the winner and end the show, making thus clear that Moscow would not accept a Yushchenko victory. This was perhaps the reason why Kuchma suddenly decided to withdraw his support to Yanukovich.

Analysts argue that by failing to impose Putin's will in Ukrainian elections signified in fact that the era of imperialist Russia was over, and that most of the projects that were announced by Putin in order to restore the Russian hegemony in the near abroad failed. The Kremlin's recent foreign-policy failures, particularly its inglorious defeat in the "battle for Ukraine,¹⁸" appear to have sparked a review of Russia's policies towards its neighbors in the post-Soviet space¹⁹.

Opposite to the Ukrainian case, the political struggle in Moldova is important not necessarily as a logical continuation of the political confrontation between democrats and autocrats, typical for the former Soviet Union states, as many see it as a last chance of 'saving Putin's honor', but also as a tool for potentially solving the 'issue' of Transdnestria, where Kremlin's separatist regime hijacked the de facto control over a thin strip of land for more than 13 years.

Transdnestria was, in fact, the 'litigious apple' with the previous Ukrainian political elite, which has repeatedly refused any initiative of controlling the border with the separatist enclave. As soon as Yushchenko will be convinced by the EU and the US to close the Ukrainian-Transdnestria border, in order to put to an end the enormous flow of arms traffic, drugs, alcohol, cars, etc. which allowed Smirnov to get very rich and reign undisputedly for the last decade, the Tiraspol regime will collapse. Smirnov's position is weak also because of its clear-cut identification with Kremlin, whose military, political and economic backup played a great

¹⁸ 'Never Say Never' - The Ukrainian revolution and the renaissance of democracy. By Claudia Roset, Wednesday, December 15, 2004 12:01 a.m. EST

¹⁹ Ирина Гречухина, ИноСМИ.Ру, Опубликовано на сайте inosmi.ru: 18 января 2005, 12:24

role in the region, although the Ukrainian factor was also a critical factor of stability and support.

Quickly after the election of Iushchenko, President Voronin stated that now he expected to receive from Ukrainian leadership full support to regain control over Transdnestria. The official reaction from Kyiev followed immediately. Starting from January 28, new instructions issued by the Ukrainian Administration provided that all cargoes for Transdnestria delivered via the Ukrainian territory must be covered with appropriate contracts certified by Moldova customs organs²⁰, thus assuring of registration of all the exports from the breakaway region by the Moldovan Government. Many saw the new policy of the Ukrainian authorities as a response to the EU's strong demands to stop unauthorized flows of goods with Transnistria.

The separatist enclave appeared to be one of the big 'losers' of the orange revolution in Ukraine. And there is a long list of reasons why Smirnov and Co. have to worry about the shift of power in Ukraine, with the promises to shed a new light over the 'misdoings' tolerated earlier by the close-to-Kuchma oligarchs. Moreover, hardly will be anyone be ready to forget the fact that independent experts were not allowed to oversee the turnout in the region, some were even beaten off and extradited which allowed Ianukovich to collect almost 98% of votes.

Forecast on the post-electoral evolution

As reported by Radio Liberty recently, the Stratford Research Center (USA) is forecasting that in 2005, the West - under US guidance - will continue its strategy of replacing pro-Russia regimes with pro-West ones in former Soviet republics. The Center presumes that such attempts will be undertaken in Moldova, Armenia, Belarus and in some FSU Central Asiatic republics, "although not all such efforts will be crowned with success". The Center analysts think that the West's efforts will be the most fruitful ones in Moldova and Armenia. While differences between Moldova and Ukraine or Georgia are obvious, the caveats are too resounding. People-power revolutions do not always succeed with a first try. In most of the 'administrative-led democracies' democrats stand with little chance if any at all unless the political circumstances are going to change. And democracy depends on institutions that need time to evolve, i.e. appropriate strengthening of the independent media, neutral and honest judiciary power, local autonomy and a market safe from interventionist policies of the Government.

In spite of the vociferous claims of the ruling party to be the 'good guys' in bringing Moldova on perhaps the last band-wagon for an European destination, particularly those undemocratic steps and policies then sharply criticized in 2002, 2003 and 2004 by the European international organizations were, in fact, the 'no' answers to the official request for EU integration. The latest actions of the Communist-controlled government and Parliament in Chisinau may drive Moldova onto a path that is difficult to oversee. The pro-European, pro-reformist, and pro-democracy rhetoric delivered by President Voronin or his communist

²⁰ Chisinau, January 28 ([INFOTAG](#)).

comrades from the Parliament and Cabinet are unable to hide the real danger facing Moldova today - to be left outside of the orbit of EU integration process, de-legitimize the attempts made so far to democratic and prosperous society in Moldova, and hence condemn its population to a pitiful future.

Authors and contributors

This report is brought to you by the following experts and collaborators of the Romanian Academic Society (SAR):

Alina Mungiu Pippidi (Politics section)
Sorin Ioniță (Forecast and Governance sections)
Igor Munteanu, IDIS Chișinău (Regional section)

Have also contributed: Suzana Dobre, Sorana Pârvulescu,
Emanuel Răuță, Laura Simionescu

Romanian Academic Society (SAR)
15 Petöfi Sándor
Bucharest 1, Romania
++4021-2221868
office@sar.org.ro