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# ECONOMIC REFORM

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## **Lessons from Moldova's Transition: The Importance of Transparent Public-Private Policy Dialogue**

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### **Article at a glance**

- Strengthening democratic institutions in transition countries is crucial not only for their democratic development but also for economic success.
- Public debate on economic and regulatory issues encourages transparency and weakens systemic corruption.
- By involving broad-based private sector in a transparent policymaking process, Moldova is on the path to building a new, competitive economy.

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## Moldova's Path to Reforms

In April 2009, flawed elections in Moldova triggered the so-called "Twitter revolution," a wave of public protests made up primarily of young people that put Moldova in the global spotlight. As in the recent uprisings across the Middle East, the sources of Moldova's widespread discontent were both political and economic in nature. Young people were shocked by the results of the election and suspected fraud since not many of them had voted for the winning Communist Party. Additionally, they were dissatisfied with Moldova's economic development.

Even after 20 years of independence after the dissolution of the Soviet Union, the Moldovan economy remains very concentrated, monopolized by a few actors, and lacking in independent regulation. More than half of the economy is regulated by institutions that have significant business interests within the sectors they oversee. Young people associate the Communist Party with Moldova's poor economic performance, and as such their rejection of the fraudulent election results reflects both their political and economic discontent.

Responding to protests, Moldovan officials held an early parliamentary election in July 2009. Four Moldovan parties agreed to create a governing coalition — The Alliance for European Integration (AEI) — that pushed the Communist Party, which had been in power for eight years, into opposition. As the chairman of the Moldovan Parliamentary Committee for Economy, Budget and Finance, I am involved in AEI's work and responsible in part for shaping many of the policies meant to support the development of a competitive private sector in Moldova.

AEI's priorities include a broad range of reforms, from Moldova's integration into the European Union to local institutional reforms. First and foremost, the coalition's priority is to improve the quality of regulations and to reduce bureaucratic inefficiencies. Many of AEI's proposed reforms relate to the justice system, which is a key element of a market economy. AEI also aims to reduce the state budget deficit, which now accounts for more than 50 percent of Moldova's Gross Domestic Product. That goal, however, is secondary to increasing the capacity of government institutions and reducing the influence of the state in the economy. Thus far, the government has been a very negative influence on Moldova's economic development and that must change.

## Challenges to Political and Economic Transformation

Moldova faces numerous challenges in building a democracy that delivers tangible economic benefits to its citizens. Right now, investors do not come to Moldova because they are not assured their investments will be secure. Therefore, Moldova should push for democratic governance that could bring the accountability necessary to attract investment and drive economic development.

Democracy is not only words; democracy is an instrument that fosters public pressure on different government agencies to perform in a transparent and accountable way. Democratic institutions can thus ensure the basis for economic development and increase security for investors.

Apart from strengthening democratic institutions, there are two things that the government must do in the economy. First, the government must regulate monopolies. Regulation must be of good quality, and rules must be transparent. When regulations are unclear, as they too often have been in Moldova, they translate into corruption.

Second, the government must ensure that the procedures that guide economic activity are efficient. The government often requires too many procedures for businesses, creating opportunities for various state agencies to intervene in the economy. For example, until 2010 construction laws in Moldova were inefficient and contained numerous restrictions. The rules and procedures were time-consuming and unclear. We have successfully changed those laws to simplify the process and mitigate the possibility of corruption or other bureaucratic abuse. Ultimately, we hope to reduce the unnecessary intervention of public institutions in many other sectors of the economy.

## The Need for Public Policy Dialogue

Serious and effective economic reform is only possible if Moldova manages to create a transparent dialogue between government officials and the business community. Unfortunately, the private sector in many post-Soviet countries is often equated with crony companies benefitting from political patronage. That view, however, overlooks the broader meaning of the private sector, which includes entrepreneurs and small businesses whose views are rarely represented in the policymaking process.

There are two types of relations between the government and the private sector. A good, positive relation is open and transparent, and involves public discussions on the best economic policy solutions. On the other end, there are unclear and corrupt relations where policies are decided behind closed doors to benefit only select companies and not the private sector as a whole. This in turn results in a negative public perception of the private sector.

One of the problems in Moldova is that a lot of state-controlled companies remain. They have no real competition because they benefit from the protection of government officials who run them. There are serious economic repercussions to supporting these companies. First, they

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limit economic competition by denying a level-playing field to private companies. Second, state companies fuel systemic corruption because they lack transparency and use corrupt channels to buy the loyalty of politicians. This is the old system that we need to reform.

Moldova needs a new economic system where new companies are able to compete on equal terms. There are still challenges but we have made some progress. For example, the Parliamentary Committee I chair has been engaged in a constructive reform dialogue with various organizations such as the think tank the Institute for Development and Social Initiatives (IDIS) Viitorul, that has led the Center for International Private Enterprise-supported National Business Agenda effort to transparently engage the private sector in policymaking.<sup>1</sup> Representatives from the private sector now participate in all our public debates. Through this process, we can develop the best suggestions for how to change the law.

This type of inclusive debate allows entrepreneurs to make their voices heard. For example, we consulted various banking associations when we changed the law regarding banking systems. We asked them about their vision to regulate this market and how the proposed law would affect their services.

We are working hard to make this inclusive policymaking process the norm and to have open, constructive relations between the government and business associations in various sectors. It is clearly a better approach than the old practice where the public had no participation in how laws were made, but everybody could see that those laws benefiting only a few and hurting the economy as the whole.

## The Role of Business in Institutional Reform

The good news is that many people who used to work in civil society organizations and have the experience of advocating for reforms are now in the government and in the Parliament. I, for one, worked on economic issues with IDIS prior to being elected to the Parliament. IDIS's work has emerged as a success story for economic reform, particularly on the institutional level.

The most apparent result of more people with civil society backgrounds now serving in the government in various capacities is that they apply their experience working with non-governmental partners on policy issues. While drafting legislation, parliamentary commissions now request the opinions of the business community as well as government officials. Historically, commissions only gathered opinions from the latter.

Since 2009 the Parliament has established strong relations with business associations, placing them in an equal position with the government as sources of information and feedback on policymaking. Business associations now play a vital role in advising and reporting on the effectiveness of legislation.

For instance, several concerns of Moldovan businesses identified in the National Business Agenda, such as the high cost of business registration or inadequate presumption of innocence in disputes involving entrepreneurs and

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the government, have become the basis for policy debate and reform proposals.

Clearly, this new approach is in itself a great success. Businesses now have a voice in the Parliament, and Parliament has channels through which to solicit private sector recommendations for legislation. According to Moldovan law, when the government wants to introduce a new law in the Parliament, it is supposed to consult with the business community. In the past, such consultation did occur but the government rarely took the private sector's recommendations into consideration. Now representatives of the private sector are treated more as equal partners in policy deliberation, with the Parliament acting as the arbiter when the positions of the business community and the government conflict. This system allows Moldovan entrepreneurs greater representation and a sense of equality.

## Lessons and Conclusions

This year the Arab Spring captured the world's attention. Moldova's – or more broadly Central and Eastern Europe's – experience with building democratic and market-oriented institutions contains important lessons for reformers in the Middle East and North Africa.

First, it is crucial to support public debates on important economic issues. Before 2009, many such decisions in Moldova were made behind closed doors, without a clear process that was open to public participation. Our experience shows that public debate is key to dismantling the old,

non-transparent ways of decision-making. Public discussion is the light that needs to shine on the policy process to ensure its integrity.

The second lesson is that building democratic institutions is paramount to a successful economic transition. If a country lacks strong institutions with clear and transparent rules, nobody knows what is happening in the economy. Even now in Moldova we still have unclear prices for services such as telecommunications and heating. We need to have sufficient institutions, instruments, and rules that will ensure the proper functioning of markets.

Moldova's journey towards a democratic, market economy is not yet complete, but we are well on our way. Through a diligent commitment to reform, we hope to incorporate a set of strong institutions, rules, and procedures to ensure Moldova's political and economic freedom and prosperity for years to come. And we trust that we can offer some positive examples of successful reforms to other countries.

### **Endnotes**

<sup>1</sup>The National Business Agenda (NBA) is an advocacy tool, modeled after the U.S. Chamber of Commerce's NBA, that allows the private sector to become a leading advocate for market-oriented reform. The NBA focuses business, policy, and media attention on a set of immediate action priorities that the business community has defined. The NBA process involves gathering input from local entrepreneurs, prioritizing reforms, and identifying relevant stakeholders and receptive government actors. Moldova's second and most recent NBA 2010 is available at [www.cipe.org/regional/cee/pdf/moldovaNBA\\_2010\\_en.pdf](http://www.cipe.org/regional/cee/pdf/moldovaNBA_2010_en.pdf).

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