CAPE Centrul de Antreprenoriat și Politici Economice
CSD CENTER FOR THE STUDY OF DEMOCRACY
CIPE

Study summary:

Russian Economic Footprint in Moldova

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BACKGROUND

A recent analysis by the Center for International Private Enterprise (CIPE) revealed a new trend related to financing private and public sectors of countries in geopolitical spheres of interest to authoritarian regimes. This type of financing is characterized by a lack of transparency, accountability, and market orientation. To label it, CIPE coined the term corrosive capital.[1] [2] CIPE, in cooperation with the Center for the Study of Democracy, Sofia (CSD), developed a methodology to assess the extent of corrosive capital and governance gaps of recipient countries, which foreign capital exploits to influence their economic and political developments. This report estimates the Russian economic footprint in Moldova. It was developed by the Center for Entrepreneurship and Economic Policy, Chisinau (CEEP), in cooperation with CSD. [3]

KEY FINDINGS

Moldova has been considered vulnerable to Russian meddling for a long time, primarily due to the oldest frozen conflict in the former Soviet Union space. Moldova continues to witness the uninvited Russian troops' presence in the disputed territory of the self-proclaimed independent Republic of Transnistria. While this report reveals that the Russian economic footprint in Moldova has decreased over the past 15 years, it is important to note that its impact, particularly on Moldova's political agenda, remains sizable, as Russia effectively leverages the conflict in Moldova's Transnistria region. Russia remains in control of important assets in the country that enables its influence on Moldova's domestic and foreign policies. The analysis assesses the Russian economic footprint based on three main indicators:[4]

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1 Building a Market for Everyone: How Emerging Markets ca attract constructive capital and foster inclusive growth. CIPE, 2019

2 Corrosive Capital – is a term coined by the Center for International Private Enterprise (CIPE) to more clearly label financing that lacks transparency, accountability, and market orientation flowing from authoritarian regimes into new and transitioning democracies. Protecting Democracies Amid A Flood of Corrosive Capital, CIPE. 2018

3 This publication was produced by the Center for Entrepreneurship and Economic Policy (CEEP) located in Chisinau, Republic of Moldova, with support from the Center for International Private Enterprise (CIPE) in Washington D.C. The document does not reflect the opinions of CIPE or any of its employees, and CIPE is not responsible for the accuracy of any of the information included in the report.

4 The methodology was developed by the Center for the Study of Democracy (CSD) and piloted in Southeast Europe by CIPE partners and CSD in 2018 Russian Economic Footprint in the Western Balkans. Corruption and State Capture Risks.

- **Corporate Footprint** (turnover of Russian-controlled companies as a share of the total company turnover in Moldova's economy);
- **Foreign Direct Investment (FDI)** (share of Russian FDI stock to Moldovan gross domestic product (GDP)); and
- **Bilateral Trade** (Russian share of total exports and total imports with Moldova).

Based on sectoral case studies, this report further examines Moldova's key governance gaps that corrosive capital can and have exploited.

Data on the Russian corporate footprint shows that the number of Moldovan companies with Russian ultimate beneficial owners is relatively small. Often, to hide the origin of capital, Russian investments are channeled through complicated corporate ownership structures involving offshore jurisdictions. Therefore, it is important to note that current official statistics may not precisely catch the real size of Russian presence in the Moldovan economy. Data examined for this assessment shows that Russian-controlled companies held around four percent of the Moldovan economy's turnover in 2018[5]. The Russian corporate footprint in Moldova has seemingly declined in half over the last decade. During the same time, the Moldovan economy has grown and diversified away from Russia. After the trade embargoes in 2006 and 2015 on Moldovan wines, fruits, and vegetables, a part of the Russian capital left Moldova.

According to CEEP calculations, approximately 40 percent (orange line of Figure 1) of the Russian corporate footprint in Moldova is represented by MoldovaGaz (50 percent owned by GazProm).

Russian Revenues as Share of Total Revenues in Republic of Moldova

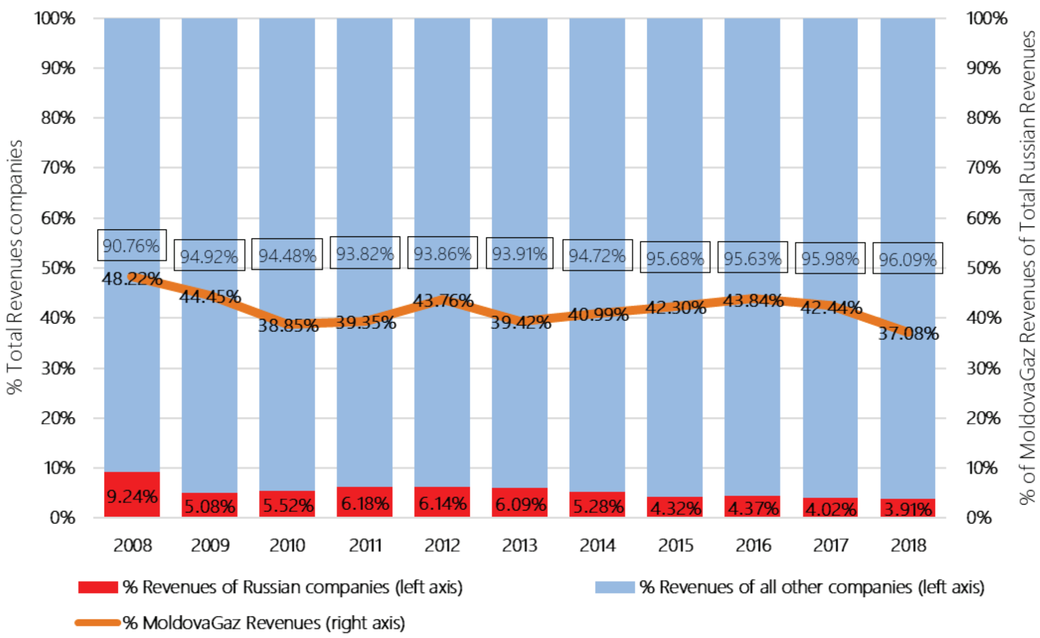

Figure 1. *CEEP Calculations based on National Bureau of Statistics data*

5 Our analysis covers the period from 2008 to 2018 and does not cover the full assessment of the Russian economic footprint in Transnistria.

Russian FDI accounts for 22 percent on average of Moldova's total FDI. However, FDI from the Netherlands and Cyprus, the second and third largest investors in Moldova after Russia, need a closer examination to arrive at a more accurate estimate of the actual Russian footprint as these two countries could have been used as transit points for Russian capital to hide its true origin. Local experts interviewed for this assessment agreed that increased transparency of ultimate beneficial ownership and effective screening of the Russian investment are necessary. In some cases (GazProm ownership of MoldovaGaz), Russian capital appears to be a conversion of a debt or a settlement between parties.

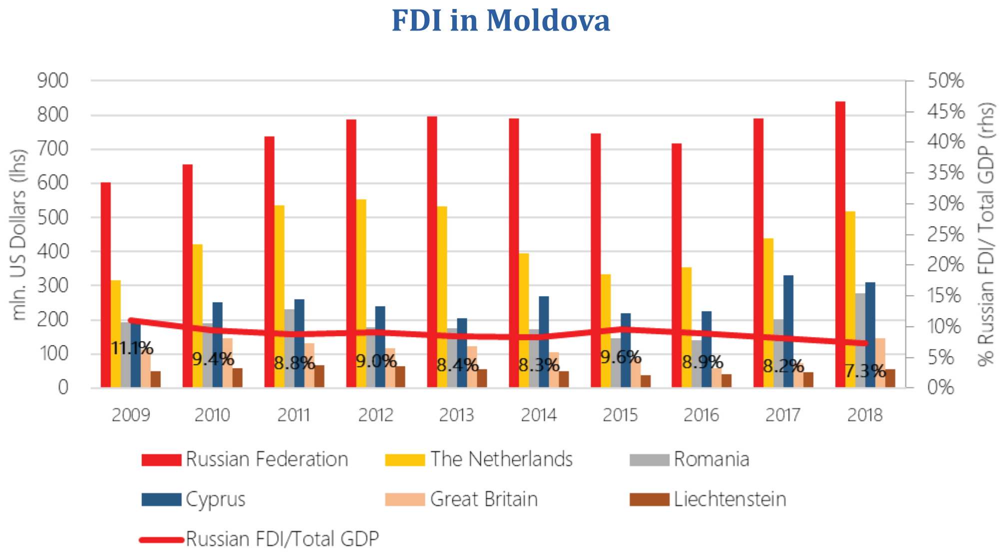

Figure 2. *CEEP Calculations based on National Bank of Moldova data*[6]

Next, both Moldova's share of exports to Russia and the Russian FDI as a percent of GDP in the Moldovan economy have also decreased over the past decade. The decline in exports to Russia is a result of the Russian embargoes following the rejection of the Kozak Memorandum by Moldovan authorities in 2006, and signature of the DCFTA with EU in 2015.

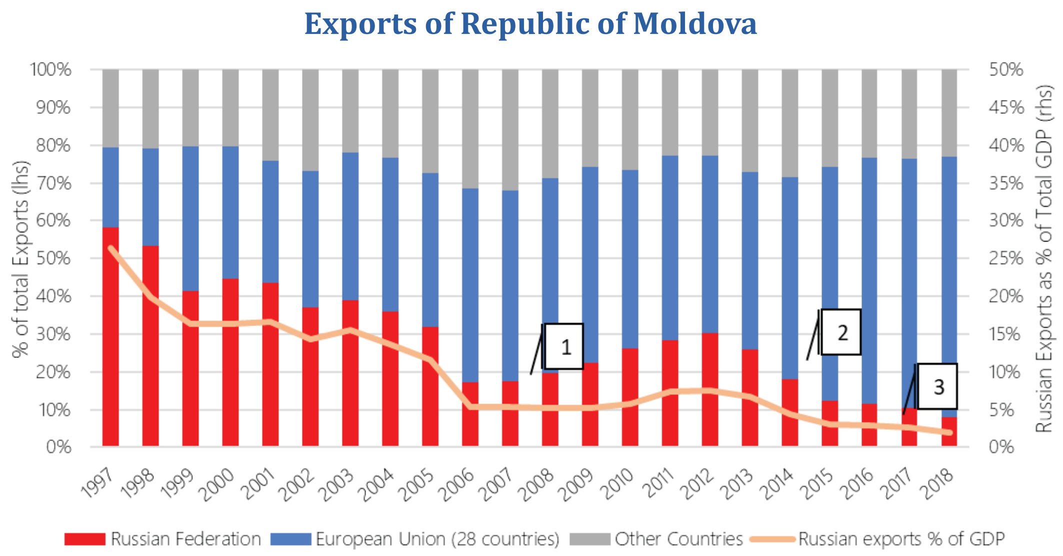

Figure 3. *CEEP calculations based on National Bureau of Statistics data*

6 Data for 2008 is not available

Moldova's gas debt to Russia amounts to US 7.55 billion, 90 percent of which is accumulated from Transnistria outside of the Chisinau government's control. This debt is not economically reasonable as it exceeds the assets owned by MoldovaGaz that can be seized by GazProm in an eventual bankruptcy. Along with leveraging the Transnistrian conflict and gas debt, Russia's influence includes launching trade embargoes, running laundromats, promoting propaganda through Russian-controlled local media, and, most recently, using international lending. A recent example US 200 million loan negotiated by Moldova's current Pro-Russian President Igor Dodon for Moldovan infrastructure projects is another and most recent example. The loan expected to be disbursed around the 2020 presidential elections was cancelled by the Constitutional Court of Moldova because the negotiation process between Moldovan and Russian authorities was opaque and the legislation regarding state debt was violated[7].

For years, political leaders in Chisinau have effectively underwritten separatism in Transnistria by agreeing to buy electricity from Moldavskaya GRES, owned by the largest Russian energy producer, the Inter RAO group. Much of the electricity consumed in Moldova has been produced in Transnistria, with Russian gas. The separatist region is not paying its share. Further, this gas debt is associated with Moldova by Russian authorities, although Moldova does not recognize such a responsibility. This creates political leverage for Russia to keep Moldova within its sphere of influence, including to curb rapprochement with the European Union (EU). Moldova's eventual transition to the EU energy package would diversify and liberalize the energy market, which would weaken the dependence on Russia's natural gas. However, such a transition will also call for market prices and the repayment of debts, which may cause cold feet for many politicians in Chisinau.

7 Constitutional Court Decision nr. 41 regarding the Russian Loan

Recommendations

This report makes the following non-exhaustive list of recommendations to address the threat of corrosive capital based on our assessment of the Russian economic footprint in Moldova:

1. Improve the quality and usability of a publicly available corporate register to foster greater transparency, accountability, and public oversight.

2. Increase transparency of ultimate beneficial ownership to uncover corporate connections to Moldova's and foreign public officials. Impose strict sanctions when there is a lack of comprehensive reporting of this ownership.

3. Enforce existing laws on money laundering[8] to prevent Russian laundromats from running through Moldova.

4. Launch effective foreign investment screening based on the respective EU Regulation[9] to defend Moldova's strategic interests.

5. Conduct an independent review of Moldova's regulatory and institutional frameworks to diagnose and close governance gaps that can facilitate corrosive capital. This review should be conducted by independent experts, including from relevant international organizations.

6. In line with relevant international standards and good practice, improve corporate governance in private and state-owned companies to enhance protection of minority shareholder rights, transparency in their financial reporting, and disclosure of selected decisions, such as Board decisions on strategic matters.

7. Enforce existing procedures regarding state debt issuance to promote greater transparency and introduce new regulation to foster accountability of public officials for decisions that are contrary to the country's national interests.

This document summarizes the key results of a full report on the Russian economic footprint in Moldova, which was consulted with local and international experts, among other relevant stakeholders. The final draft will be published in October 2020.

8 Law nr. 308 on anti-money laundering and terrorism financing

9 Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019: Establishing a framework for the screening of foreign direct investments into the Union

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The Center for Entrepreneurship and Economic Policy (CEEP) is an independent analytical center, which has the mission of supporting the development of democracy and the functioning economy through public policies focused on private sector development and stimulating private initiative.