

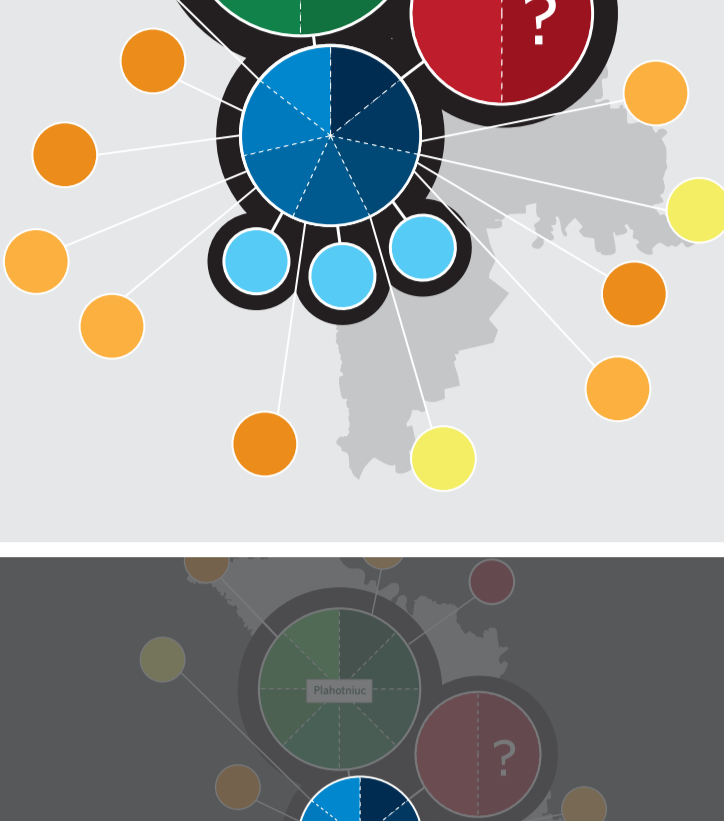
# The Structure of Corruption in Moldova

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Moldova's network is controlled not from within its government, but from the private sector, by business magnate Vladimir Plahotniuc. The leak in May 2015 of a central-bank-commissioned report detailing the suspicious transfer of some \$1 billion—fully 12 percent of GDP—from the country's top three private banks sparked massive anticorruption demonstrations. It was also seen as a move by the Plahotniuc network to disable its lone competitor, the network around former prime minister Vladimir Filat, who was implicated in the report. It was a Plahotniuc confidant, Speaker of the Parliament Andrian Candu, who leaked it. The network is vertically integrated in the usual fashion, with bribe money paid to justice sector professionals, teachers, and doctors traveling up the line in return for protection from legal repercussions or the impact of institutional reforms. Both the Plahotniuc and Filat networks are nominally pro-European, so some degree of popular pro-Russian sentiment may reflect indignation at the corruption that even negotiations aimed at charting a path toward European integration have failed to reduce, rather than purely cultural affinities.

## Kleptocratic Network

- Government elements
- Lower officials
- Criminal elements
- Private sector elements
- Active facilitators
- External enablers
- Enabling conditions



## MOLDOVA Government Elements

The elements of state function that are key to network operations include:

### Judicial branch

Prosecutors as well as judges. Justice sector personnel ensure impunity for corrupt customs officials or criminal bank executives by destroying or abandoning bank evidence, enforce fraudulent debt claims as part of money-laundering schemes, and block attempted institutional reforms. A number of judges have resigned or are under investigation, but whether these changes will be adequate to reform the system is an open question.

### National Anticorruption Center

This nominally independent agency keeps files on various government officials and is seen to preferentially target those who buck the Plahotniuc line.

### National Investigation Inspectorate

Especially the Economic Crime Unit and Special Operations Department, believed to tamper with evidence and collect information on potential rivals.

### Ministry of Economy

Agencies under its jurisdiction use customs and tax audits to discipline, handicap, or punish competing businesses. According to several interviewees, the Ministry of

Economy has required national utility companies to route electricity or telecom services by way of network-affiliated intermediaries, which skim some portion of rates paid. (Electricity rates rose by about one-third over just a few months at the end of 2015.)

### Ministry of Information Technology and Communications

### Central Bank

Non-enforcement of banking regulations by the central bank has also been critical to Moldova's ability to provide money-laundering services.

### Central Electoral Commission

Plahotniuc's control of the autonomous Central Electoral Commission, whose chairman is a member of his inner circle, allows the network to influence elections via vote-buying and the disqualification of candidates. As a result of these levers and direct emoluments or intimidation, the parliament is largely under network control.

## MOLDOVA Private Sector Elements

The main private sector network elements include:

### Banks

Owners of Moldovan banks have used a variety of layered and opaque corporate structures and proxy owners, so it is difficult to determine who they actually are, or who is profiting from the money-laundering services that have been provided to Russian clients, or on whose behalf \$1 billion was siphoned out of the three main banks.

### Construction contractors

Contract fraud is suspected, especially regarding public buildings such as schools and hospitals, as well as roads. Moldova does not have the type of megaprojects that are evident in Azerbaijan.

### Consumer goods importers

### Bakeries and butchers

### Media

Prime, Canal 2, Canal 3, and Publika, among others.

### Hospitality and travel

Nobil Luxury Boutique Hotel and Codru Hotel, among others.

### Real estate

### Public utilities intermediaries

As elsewhere in this region, criminal actors are intertwined with kleptocratic networks.

### Sex trafficking?

Moldova has been famous for sex trafficking since at least the turn of the millennium. At that time, women entrapped in Moldova were trafficked across the still-chaotic Balkans, leaving for Italy in rubber dinghies. From Italy they were dispatched across Europe, ending up, for example, in Lyon, France, where they competed with regulated prostitutes. This trade continues, with other routes leading through Turkey to the Middle East. No evidence of concrete links to the Plahotniuc network has been publicly uncovered.

### Smuggling

Especially foodstuffs, alcohol, and cigarettes.

### Russian corruption and organized crime networks

These foreign networks have relied heavily on Moldovan banks for money-laundering services.

## MOLDOVA Active Facilitators

The main external facilitators are:

### Shell company domiciling services

Providers have been identified in Belize; Cyprus; Hong Kong; the Netherlands; New Zealand; South Africa; the United Kingdom, including Scotland and the British Overseas Territories, and the U.S. state of Delaware.

### Ukrainian smuggling rings

Might be considered external members of Moldova's criminal networks.

### Local branches of some international auditors

They have signed off on clean bills of health for banks providing illegal loans.

### Russian banks

They provide fictitious deposits to disguise Moldovan banks' disappearing capital.

### Moldovan citizens

Some Moldovans have allowed their names to be used as "owners" of shell companies in Russia that guaranteed fictitious loans between other paper companies. Payments by these Moldovan-owned "guarantors" to the supposed creditor when the supposed borrower supposedly defaults is the mechanism by which money has been laundered. In fact no loan would ever have been made. The fiction was concocted to provide an apparently legitimate paper trail explaining the transfer of funds.

## MOLDOVA External Enablers

The main external enablers are:

### Latvian banks

These banks are the first ports of call for money freshly laundered in Moldova.

### U.S. foreign assistance

Donor funds from Europe and international financial institutions have been significant until quite recently. But most international donors and lenders are now freezing their programs with Moldova. The International Monetary Fund (IMF) has provided no new loans since 2013, and has made it clear that the current state of the political economy precludes negotiations for the moment. While the U.S. Millennium Challenge Corporation compact has not been renewed due to corruption concerns, the U.S. State Department included \$41 million in 2017 budget request. Activists see this U.S. support as moral reinforcement for the Plahotniuc network.

### Russian gas

Gazprom owns a 51 percent stake in Moldovagaz.

### Romanian foreign assistance

Despite pressure from other lenders, the Romanian government approved a \$177 million loan in May 2016, though no funds have been disbursed as of mid-2016.

### Romanian elite stature-enhancing interactions and business deals

## MOLDOVA Enabling Conditions

The main enabling conditions are:

### EU-Russian tensions

This geostrategic context has played an enabling role for the nominally pro-EU Plahotniuc network. Ironically, the United States has remained more sensitive to this geopolitical alignment than the EU, which has suspended its financial support.

### Frozen Transnistrian conflict

The unresolved claims and counterclaims to this piece of territory have left it in a degree of administrative limbo that facilitates cross-border smuggling from Ukraine.

### Remittances

Most of the guest workers sending money back to families in Moldova are employed in Russia. The flow is estimated to total approximately one-quarter of Moldova's GDP. This cushion is vulnerable to Russia's economic contraction.

## MOLDOVA Revenue Streams

