



Co-funded by
the European Union



Institutul pentru
Politici și Reforme
Europene



Eastern Europe Studies Centre



Political clientelism and public investments

Authors:

Alexandru FALA
Constantin COPACEANU
Dumitru PINTEA
Stanislav GHILETCHI

The project is co-funded by the European Union and Konrad Adenauer Stiftung e.V.

Disclaimer

This publication was developed under the project "Inform, Empower and Act! Civil Society for Better Budgetary Governance in Moldova", which is implemented by Expert-Grup Independent Think Tank as the main partner, in consortium with the Konrad Adenauer Foundation (KAS, Germany), Eastern Europe Studies Centre (EESC, Lithuania) and the Institute for European Policies and Reforms (IEPR). The project is co-financed by the European Union and the Konrad Adenauer Foundation. The opinions expressed are those of the authors and do not necessarily represent the views of the European Union and the Konrad Adenauer Foundation.

Contents

List of abbreviations.....	4
Executive Summary.....	5
I. Introduction	7
II. Description of political clientelism.....	9
2.1 What does political clientelism mean?	9
2.2 Key elements of clientelism.....	10
2.3 Factors contributing to the development of political clientelism	11
III. Case study: transfers from the State Budget to local budgets	12
3.1 The legal framework regulating the transfers	12
3.2 Approval of the 2021 State Budget.....	15
3.3 Distribution of capital expenditure transfers	16
IV. The implications of clientelism for public policies.....	22
4.1 Reduction of political pluralism	22
4.2 Substituting the activity of public institutions.....	24
4.3 Centralising the appropriation of funds for public investment.....	25
4.4 Deficient and non-transparent involvement of the private sector.....	26
4.5 Little attention to the clientelism issue.....	27
V. Conclusions and recommendations aimed at reducing clientelism.....	28

List of abbreviations

LPA	Local Public Authority
CALM	Congress of Local Authorities from Moldova
IC	Independent Candidate
PAS	'Action and Solidarity' Party
PCRM	Party of Communists of the Republic of Moldova
PPPM	'For Moldova' Political Platform
PPSOR	'Sor' Political Party
PPPN	'Our Party' Political Party
PSRM	Party of Socialists of the Republic of Moldova
GPT	General purpose transfers
IT	Infrastructure Transfers
RIT	Road Infrastructure Transfers
MET	Mainstream Education Transfers

Executive Summary

Studying political clientelism in various countries and governance systems enabled the identification of some key features of this phenomenon: mutual advantages for participants; the hierarchical system of subordination and the repetitive nature of the transfer of benefits. The main factors contributing to its development are:

- Reduced capacity of the public administration (both centrally and locally) to provide quality services and meet the citizens' needs;
- Complexity of the public policy-making process and the challenges faced by decision-makers;
- Low credibility of politicians' promises;
- Limited budgetary transparency and low citizen participation in the examination and approval of budgets;
- Deliberate adoption of clientelism as a political strategy of the party;
- Collective acceptance of political clientelism as a solution to local problems.

Clientelism diminishes political pluralism and reduces competition among political parties. Researcher Larry Diamond, having analysed clientelistic parties and hybrid regimes, found that the high level of clientelism leads to electoral hegemony (domination of a particular party), and the victory of opposition parties 'requires a level of mobilization, unity, skill, and heroism far beyond what would normally be required in a democracy'.

At the same time, political systems with a high level of clientelism show a tendency to substitute public institutions and some of the exclusive functions of the public authority in reality are presented as a direct success of the ruling party. However politicians and political parties are an ineffective substitute for public institutions that should provide services to citizens. This undermines the idea of the public good, affects the legitimacy of public institutions and facilitates the capture of institutions by small interest groups. Thus, it is not the public authorities that provide services and implement infrastructure projects, but the politicians, who condition the continuation of projects in exchange for electoral support.

Clientelism also flourishes because of the centralised allocation of national investment funds. The lack of own financial resources, as well as the lack of clear criteria for the distribution of capital investment funds affect the ability of local authorities to implement projects that raise the quality of life. This vulnerability is skilfully exploited by the ruling political elites who, directly or not, condition the provision of financial resources.

For the Republic of Moldova, the allocation of budgetary resources from the central to the local level based on political criteria is a common practice. No exception to this rule was the approval of the 2021 State Budget. The estimates show that the political affiliation is statistically significant and closely linked to transfers for capital expenditure. Thus, it is predictable that the administrative-territorial units run by people close to the parliamentary majority receive much larger transfers compared to the districts and localities administered

by people not affiliated with the government. **According to the analysis, clientelism showed up only in capital expenditure transfers.** According to the 2021 State Budget Law, the localities whose mayors are representatives of the ruling parties, will benefit from inter-budgetary transfers that are 40.2% higher than the financial resources to be allocated to the cities and villages whose administrations are not affiliated with the government. At the same time, transfers for capital expenditure from the State Budget will be made to 44.1% of localities run by mayors not affiliated with the government (281 out of 637 settlements), while the area of transfer coverage for the cities and villages run by those close to the ruling parties accounts for about 69% (162 out of 235 settlements). The situation is similar in case of transfers to level-two LPAs. Thus, the administrative-territorial units with leaders affiliated with the Government will receive amounts that are three times higher than the transfers provided to the districts with where the leadership is not affiliated with the government. In terms of territorial distribution, about 43% of districts with presidents not affiliated with the government (6 out of 14 districts) are to benefit from transfers for capital expenditure, while in case of administrative-territorial units run by people close to the governing parties – 80% (16 out of 20 administrative-territorial units) will obtain allocations for capital expenditure from the State Budget.

The reason may be the fact that allocation of transfers for capital expenditure is not regulated, while all other types of transfers from the State Budget to local budgets there are clearly regulated. For example, the general purpose transfers for level-two LPAs are determined based on the population number and the size of the territorial unit; the road infrastructure transfers for level-two LPAs are determined based on the road length; and the road infrastructure transfers for level-one LPAs are calculated based on the population number.

It is important to note that the phenomenon of clientelism cannot be eliminated entirely: even if the transfers are calculated solely based on formulas, that does not guarantee a total immunity from political clientelism. The ruling parties can change formulas for calculating inter-budgetary transfers in order to achieve their political goals. For example, if the ruling party is supported by the elderly, then the mechanism for distributing transfers can be modified so that areas with a higher share of the elderly benefit from budgetary allocations. The public policies and the actions of the authorities are the ones that should contribute to the reduction of this phenomenon in the society. Given the harmfulness of this practice for the development of the country, it is necessary to initiate a dialogue between political actors, both the ruling and opposition parties, in order to support a package of measures to improve the legislative framework and the public finance management. The struggle with clientelism will continue beyond the mandate of one government and this is an additional reason for a dialogue between the political forces. Harmful and flawed practices should not be left-wing or right-wing issues, but should be dealt by all political actors because they affect the economic development and citizens' quality of life.

In order to reduce political clientelism and to increase the efficiency of capital expenditure financed by allocating transfers for capital expenditure from the State Budget to local budgets, the following is recommended:

- ✓ Make additional efforts for the **institutional development and strengthening of the public authorities** responsible to ensure the integrity of political competition (e.g. Central Electoral Commission, National Integrity Authority, Court of Accounts, General Prosecutor's Office, National Anticorruption Center, etc.);
- ✓ **Improve the quality of public services provided by the authorities.** When citizens are sure that they have access to quality and fast services, then they no longer need to ask for the involvement of the political factor in order to obtain certain favours, thus contributing to the diminution of political clientelism;
- ✓ **Increase transparency and participation** of citizens, civil society, businesses, academia and other stakeholders in decision-making and preparation of the national public budget;
- ✓ **Delegate responsibilities** regarding the distribution of public resource allocations to the politically independent institutions or **allocate transfers on the basis of specific regulations.** The regulations are usually transposed into formulas or mechanisms which provide that the amount of transfers is determined according to objective socio-economic factors, such as the number of students, the length of roads or the income of the population;
- ✓ **Establish a mechanism for evaluating all investment projects** – systematic evaluation will allow a better concentration of the state's financial effort, facilitate access to new development funds, and increase the chance of financing the projects, which are really needed for the economic recovery of the Republic of Moldova, both at national and local level;
- ✓ **Based on the evaluation results, develop the universal list of investment projects**, i.e. these projects will be a priority for state funding, including through inter-budgetary transfers. These projects can also be supported by issuing municipal bonds or negotiating public-private partnership agreements;
- ✓ **Build the capacity of both central and local authorities** responsible for assessing and analysing the economic benefits of investment projects. Introduce the obligation to apply the ex-ante and ex-post analysis mechanism for public sector investments made out of public funds;
- ✓ **Increase the transparency of investment projects** and [publish in detail the proposed projects](#);
- ✓ **Clarify the situation regarding the infrastructure projects** implemented on the account of donations from economic operators or other stakeholders. In order to ensure monitoring and reduce number of cases when favours and advantages could be offered to these economic operators, a register should be developed specifying the details and conditions of these donations.

I. Introduction

The move towards democracy and market economy is a difficult one for the Republic of Moldova and continues to be a major challenge for the politicians, citizens and civil society.

Over the last years, especially following the signing of the Association Agreement with the European Union, the authorities' efforts have focused on improving the governance and strengthening the administrative capacity of public institutions: strengthening the independence of regulatory institutions, approving new regulations on the organisation and operation of institutions based on clear rules and procedures, and increasing transparency and citizen participation in the decision-making process. Additional efforts for institutional development are justified, as only strong institutions can expose and punish corruption, only strong institutions can ensure a high degree of accountability, and only strong institutions can manage conflicting interests in the society and foster an environment that enables dialogue and compromise.

However, the existence of regulations on the functioning of public institutions is insufficient to promote the above-mentioned principles, as the reality is completely different. The high level of political clientelism is one of the factors determining the difference between what is and what should be. Political patronage and clientelism undermine and distort the rule of law, hinder and limit citizens' participation in democratic processes, foster and fuel corruption, reduce the quality of public services and halt the socio-economic development of the Republic of Moldova.

In order to fight political clientelism effectively, it is important to understand how it works. Thus, this study will define and describe the concept of clientelism, analyse its implications for public policies and provide solutions and recommendations for reducing it. The analysis of State Budget to local budget transfers for capital expenses provided for in the 2021 Budget Law played an important role in this study. The political clientelism showed up most of all in the process of adopting the 2021 Budget Law, namely in the distribution of inter-budgetary transfers.

The study was conducted under the 'Inform, Empower and Act! Civil Society for Better Budgetary Governance in Moldova' project. The analysis is part of component 3 of the project ("Act") and is part of the research activities aimed at promoting changes in the process of allocating financial resources from the central budget to local budgets. The study followed a specific methodology and was conducted by a team of consultants of the Expert-Grup Independent Think-Tank and the Institute for European Policies and Reforms (IPRE) during March-April 2021.

In order to highlight the political clientelism, the study used both quantitative and qualitative analysis methods. Other countries use econometric estimates to a large extent in their studies in order to assess the influence of the political factor on the distribution of inter-budgetary transfers. This study takes into account the international practice and ran several regressions to quantify the effects of political clientelism. At the same time, the econometric calculations were supplemented with a statistical analysis, thus comparing the central trends (average and median) specific to both the series reflecting the distribution of transfers to administrative-territorial units led by representatives of the governing parties

and the series showing the distribution of budgetary sources to the districts and settlements led by people that are not affiliated with the government.

This study includes the following:

- a) Definition and description of clientelism
- b) Case study: Transfers from the State Budget to local budgets for 2021
- c) The implications of clientelism for public policies
- d) Conclusions and recommendations aimed at reducing political clientelism

II. Description of political clientelism

2.1 What does political clientelism mean?

Political clientelism showed a high ability to adapt in various democratic systems. The political clientelism phenomenon, though being much more spread and advanced in developing systems, continues to exist in countries with efficient and functional institutions. Some of the [initial research on clientelism](#) highlighted the temporary nature of this phenomenon, meaning that it should disappear as the economy develops and as public institutions build their efficiency and capacity. Over time, though, clientelism has shown resilience, being able to change its nature, appearance and shape. The complexity of this phenomenon and its ability to transform make it difficult to define this term exactly, so currently there is no universally accepted definition. At the same time, one of the traits of political clientelism is that this phenomenon cannot be completely eliminated, while public policies and the actions of the authorities can only contribute to its diminution.

One of the simplest definitions of political clientelism would be: **who gets what?** Clientelism is a distribution of mutual benefits among policy makers/political parties and citizens, the benefits being intended only for a well-defined target group. Citizens who receive these benefits, in turn, provide the necessary electoral support to keep political parties in power. [Three conditions are necessary for this transfer of goods to be considered political clientelism](#): the distribution of the benefit is carried out in a non-transparent manner and in the absence of clear rules (the general population did not have access to this benefit), the benefit is of a personalised nature (it is intended for a small group of citizens or only a certain region of the country) and, directly or not, it is conditional on political support. It is the conditional and discretionary manner of allocating financial resources that determines the clientelistic nature of the transfer of benefits.

[In the previous study](#), 'political clientelism' was defined as a **range of relations between persons united out of interest** in a political party and by personal relationships of the party members in order to obtain personal or party financial benefits by means of favours, by circumventing or violating the law, including the legal provisions on avoiding conflicts of interest, public procurement, use of public resources, including financial ones.

Political clientelism involves many closely intertwined parts and elements. The pyramidal structure of these relationships and the existence of a large number of intermediaries that ensure the transfer of benefits among multiple stakeholders complicate significantly the isolation of this phenomenon and the implementation of solutions that would minimize its spread.

2.2 Key elements of clientelism

Studying political clientelism in various countries and governance systems enabled the identification of some key features of this phenomenon: mutual advantages for participants; the hierarchical system of subordination and the repetitive nature of the transfer of benefits.

Mutual advantage for participants – clientelism is a two-way street. Each involved stakeholder is going to get a certain benefit. Politicians, in general, are interested in electoral support, while citizens and businesses are interested in additional goods, services or financial resources that could not be obtained by following standard procedures established by the authorities. The provided benefit is always conditioned. For instance, [in 2019](#) the chance of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources were 2.6 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. Thus, the development of infrastructure in a city and village was indirectly conditional on greater support in the next election. The possibility to obtain more funds is presented as an advantage by the mayor and a public confirmation to the community that if they support (both locally and centrally) a particular political party, then there will be a possibility to obtain even more development funds in the future (it's the ability to deliver tangible results that allows solving the issue of citizens' low level of trust). Thus, clientelism is an attractive strategy for political elites who can build an effective and loyal support base, especially at the local level.

Hierarchical system of subordination – The clientelistic relationship takes place between stakeholders with different status and power: political parties, especially the ruling ones, have a much greater decision-making power than the citizens (e.g. management of budgetary resources without clear criteria and at the discretion of the ruling parties). This is an issue and it contributes to the perpetuation of clientelism. In democratic systems, elections are the way to hold politicians accountable, [but in the case of systems affected by clientelism](#), politicians are the ones who hold citizens accountable for their vote (reward them for their electoral support or punish them for not having voted for them in the last elections).

The repetitive nature of the transfer of benefits – Although clientelism involves an exchange or a transfer of benefits, as a rule, it does not take place simultaneously, but is delayed in time. This creates certain credibility problems, since citizens have to support a candidate before he/she can deliver the promised good to them, and the politician has to

promise a service to the citizens not knowing exactly whether they will support him/her in the election. Thus, the repetitive nature of the interactions between politicians and citizens is essential in the facilitation of political clientelism. The continuity of the long-term relationships reinforces the predictability of actions taken by the stakeholders and facilitates the creation of a monitoring mechanism. At the same time, the transfer of benefits could often be done in a public way to further highlight the political actor's ability to deliver the promised goods and services to certain categories of citizens (see also section 4.2). Repetitive and public benefits are essential for strengthening the relationship between the stakeholders involved in clientelism.

2.3 Factors contributing to the development of political clientelism

The reduced capacity of both central and local public administration to provide quality services and meet the needs of citizens contributes to the perpetuation of clientelism. When state institutions cannot provide good roads, access to water and sanitation, an efficient education or healthcare system, other political actors can take on the task of providing these services long awaited by citizens. For example, during 2020 (see section 4.2 for more examples), multiple press releases were submitted to the national media announcing street lighting projects implemented by such a political actor: PPSOR [has completed the street lighting in another Orhei district's village](#) or [PPSOR brings light to Orhei district](#). This phenomenon of local public authorities getting substituted by political parties (including by MPs from these political parties) undermines the idea of the public good, affects the legitimacy of public institutions and facilitates the capture of institutions by small interest groups. Thus, it is not the public authorities that provide services and implement infrastructure projects, but the politicians, who condition the continuation of projects in exchange for electoral support.

The complexity of public policy-making and the challenges faced by decision-makers also fuel clientelism. The public policy-making includes from the very beginning complex systems designed to interact harmoniously with each other: people systems (e.g. civil servants, politicians, experts, donors), systems of institutions (e.g. ministries, the Parliament, civil society organisations, public authorities, autonomous authorities), and systems of general conditions under which this analysis exercise takes place. In these circumstances, clientelism is used as a shortcut to obtain benefits or favourable decisions in the absence of a general scheduling framework that ensures equal access for all citizens.

Political clientelism is resorted to when the politicians' promises are no longer considered credible by citizens. Not being able to convince the citizens altogether, politicians use clientelism to provide certain favours, services, financial resources only for a small group of citizens (either for other party members, relatives/friends or only for citizens of a certain district/city). According to the 2021 [public opinion](#) barometer 2021, political parties, the Parliament, the Government and the judiciary have the lowest levels of public trust. The members of parliament are considered the most corrupt. This situation is a vicious circle. With political elites having extremely low credibility, they see no other solution than

to use clientelism in order to keep power and this leads, inevitably, to an even greater reduction in citizens' trust in state institutions, which further hinders the economic development of the country, continuously fuelling the clientelistic networks.

Limited budgetary transparency and low citizen participation in the examination and approval of the budget by the Parliament of the Republic of Moldova affect budgetary sustainability and encourage clientelistic relations. The wide margin for manoeuvre in allocating budgetary resources for investment projects was particularly noticeable when approving the 2021 budget. The Government left at Parliament's discretion more than [MDL 300 million](#) which was subsequently allocated at random, without a detailed analysis of benefits and beneficiaries, with no comparison of results or prioritisation. The main criterion was the political affiliation of the MPs; Orhei district received most money from the budget according to the distribution approved by the Parliament (see Chapter 3 for a detailed analysis of the allocated funds).

Another important factor is the **conscious adoption of clientelism as a political strategy of the party** (characteristic of both those in government and the parties willing to come to power). The [electoral programs](#) of the parties often include populist measures that go beyond both the possibilities of the budget and the administrative capacity of the state to deliver on all the promised results. Thus, political parties, instead of focusing on public policy-making and strengthening democratic institutions, prefer to undermine both processes and emphasize their individual capacity to solve people's problems and provide solutions for certain groups of citizens. This is necessary given the low level of citizens' trust in politicians. Credible promises can only be made to narrow segments of the electorate and clientelism becomes the vehicle that allows the delivery of promised goods to citizens.

Collective acceptance of political clientelism as a solution to local problems. Most citizens acknowledge that the clientelistic system is extremely deficient because it does not produce effective public policies and does not contribute to raising the quality of life for all. However, in the absence of collective rejection of clientelism by citizens, some of them continue to support parties that resort to clientelism. In order to have access to a better service, to win a tender, to get money for a certain project, citizens continue to support political clientelism. Since only a small group of citizens would give up clientelism, that group risks not having access to certain benefits it had before. A citizen would be ready to give up clientelism when everyone would be ready to reject this system. Unfortunately, this cannot be done without collective action on the part of citizens. Although this would be for the common good, the conflicting interests of citizens and the difficulty of reaching a compromise reduce the chance of a successful collective citizens' when it comes to rejecting political parties that are built on clientelism.

III. Case study: transfers from the State Budget to local budgets

3.1 The legal framework regulating the transfers

The distribution of public funds from the central to the local level depending on the political affiliation of the settlements is a specific problem for the inter-budgetary relations in the Republic of Moldova. In essence, transfers from the State Budget to local budgets function as a 'bonus' in the arsenal of tools for forming the electoral pool of political parties, contrary to the [requirements of efficiency, transparency and timeliness](#).

The two main pieces of legislation regulating transfers from the State Budget to local budgets are: The Law on Public Finance and Budgetary-Fiscal Accountability and the Law on Local Public Finance. [The Law on Public Finance and Budgetary-Fiscal Accountability](#) establishes the budgetary-fiscal principles and stipulates that the relations between the State Budget and local budgets are achieved through general purpose transfers and special purpose transfers. At the same time, the law stipulates that the mechanism, criteria and manner of establishing inter-budgetary transfers shall be regulated by the local public finance legislation and other regulatory acts. [The Law on Local Public Finance](#) stipulates that the volume of transfers for each administrative-territorial unit shall be expressly established in the State Budget Law. Similarly, the Law on Local Public Finance sets out the classification of transfers and describes how to calculate them (

Table 1). Special purpose transfers from the State Budget are directed to local budgets to finance:

- ✓ general education;
- ✓ local public road infrastructure;
- ✓ capital investments;
- ✓ other special measures.

Also, special purpose transfers are meant for social assistance, reimbursement of land tax exemptions (missed earnings) to the owners of agricultural land located beyond Rabnita - Tiraspol highway and are used to distribute financial resources from the Population Support Fund for the minimum package of social services. The distribution of transfers according to these purposes is provided for by the annual budget laws, including the [2021 State Budget Law](#) (the list of transfers from the State Budget to local budgets is attached to the law).

Table 1. Regulatory acts governing transfers from the State Budget to local budgets

TYPE OF TRANSFER		REGULATORY ACTS REGULATING THE CALCULATION OF TRANSFERS	
		LEVEL-ONE LPAs	LEVEL-TWO LPAs
General Purpose Transfers		The formula for calculating transfers is laid down in the Law on Local Public Finance No 397/2003. The fund meant to balance the level-one local budgets* shall be distributed according to the fiscal capacity per inhabitant, the population number and the size of the level-one administrative-territorial units.	The formula for calculating transfers is laid down in the Law on Local Public Finance No 397/2003. The fund meant to balance the level-two local budgets* shall be distributed according to the population number and the size of the level-two administrative-territorial units.
Special purpose transfers	Education Transfers	General rules for estimating the expenditure limits are applied for the calculation of transfers; those rules are laid down in the Methodology kit for the preparation, approval and amendment of the budget, approved by the Order of the Ministry of Finance No 209/2015. The transfers intended to cover the pre-school education expenses shall be adjusted to the cost of the amendment factors, established in accordance with budget	The Government Decision No 868/2014 on the financing based on standard cost per student from primary and general secondary education institutions subordinated to the level-two local public authorities set the method of calculating category transfers. Category transfers are financial means calculated based on standard cost per student, allocated from the State Budget to the budgets of the level-two administrative-

	availability.	territorial units, intended to finance educational institutions.
Social assistance transfers	Transfers are calculated based on several regulatory acts, including: Government Decision No 1413/2016 approving the Regulation on establishing and paying the compensation for transport services and Government Decision No 132/2020 approving the Regulation on establishing and paying allowances for certain categories of children and young people.	
Transfers for the compensation of land tax exemptions (missed earnings) to the owners of agricultural land located beyond Răbnița-Tiraspol highway	The amount of transfers is determined according to the Government Decision No 567/2007 approving the Regulation on the compensation of revenues to local budgets, the State Social Insurance Budget, and Compulsory Health Insurance Funds, which have been missed in connection with the exemption of the owners of agricultural land located beyond Răbnița-Tiraspol highway from the payment of land taxes, the payment of compulsory state social insurance contributions and of compulsory health insurance premiums.	
Capital expenditure transfers	There is no mechanism or calculation formula for determining the amount of capital expenditure transfers.	
Road Infrastructure Transfers	According to the Law on Local Public Finance No 397/2003, transfers shall be calculated and distributed proportionally to the population size of an administrative-territorial unit, based on official data existing at the time of their calculation, in the amount of 50% of the total amount of the fee for the use of roads by motor vehicles registered in the Republic of Moldova, approved through the annual State Budget Law.	According to the Law on Local Public Finance No 397/2003, transfers shall be calculated and distributed according to the number of administered equivalent kilometres, in line with the road fund legislation.
Transfers from the Population Support Fund for the minimum package of social services	This type of transfer is not made to level-one LPAs.	The amount of transfers is determined according to the following regulatory acts: ✓ Law on Population Support Fund No 827/2000; ✓ Government Decision No 800/2018 approving the minimum package of social services and the amendments to the Regulation on establishing and paying material aid; ✓ Government Decision No 159/2018 approving the Regulation on establishing and paying the annual material aid.

Source: developed by the authors

Note: * – General purpose transfers are made from the fund for the financial support of administrative-territorial units, which is formed from the income tax paid by individuals, not allocated in the form of transfers to local budgets. The fund for the financial support of administrative -territorial units is divided into level-one local budget balancing fund and level-two local budget balancing fund.

As seen in the case of capital expenditure, there are no rules on the distribution of transfers from the State Budget. This contributes to the allocation of these funds on political grounds. Thus, transfers from the State Budget to local budgets could [constitute a potential form of political clientelism](#) by favouring the local budgets for LPAs where mayors are affiliated with the parliamentary majority. In general, the literature supports the idea that discretionary inter-budgetary transfers, which are distributed without regulated mechanisms, favour political partisanship. [Simon-Cosano, Lago-Penas and Vaquero \(2012\)](#) showed that in Spain discretionary transfers are used for political purposes and the resource distribution strategy depends on the type of election: local or national. Thus, in the case of local elections, the financial resources are distributed at sub-national level in favour of the parties affiliated with the government, so that they obtain good electoral results allowing them to form regional governments. In the case of national elections, [transfers are aimed at mobilising the](#)

[electorate](#), especially in the regions providing more seats in the legislature. [Khemani \(2003\) in a study on political partisanship](#) and intergovernmental transfers in India concluded that discretionary transfers serve political purposes, and rule-based allocations can be used to counter the political partisanship which is expressed in distribution of available resources to state governments.

At the same time, it should be noted that the existence of clear formulas or mechanisms for the distribution of transfers does not guarantee a complete immunity against political clientelism. [Johansson \(2001\)](#) analysed the case of Sweden and described how intergovernmental transfers made on the basis of clear rules can be subordinated to political goals. You can see below some excerpts from his paper: 'The largest share of intergovernmental grants is distributed to the municipalities by civil servants according to detailed regulations. This seems to indicate that parties lack the opportunity to distribute grants according to tactical considerations. What parties can influence, however, are the rules themselves and the grant system has indeed, as was discussed above, been subject to a number of reforms during the studied period. The argumentation is the following: If a government wants to target one specific region with grants, it can see to it that this region is a net winner of a reform by specifying the grant formulas accordingly. For example, if the region that the government wants to transfer money to have a large population of old people, the government can specify the grant formula in such a way that the share of older population has a large influence on grants received '. [Banful studied the experience of African states](#) and mentioned two ways to reduce political manipulation in the process of allocating public funds: one method consists of creating independent agencies that decide on the distribution of financial resources, and another solution would be to allocate transfers on the basis of formulas. However, [the author concludes](#) that the allocation of resources based on a uniformly applied formula that takes into account economic variables does not necessarily prevent the politically motivated appropriation of funds. Aspects regarding who determines the formula or how and when the formula can be modified are [important determinants of the effectiveness of preventing political manipulation](#).

3.2 Approval of the 2021 State Budget

The adoption of the 2021 State Budget Law provoked a series of contradictory discussions both in the legislative forum and in society. One of the 'headlines' of these debates was the disproportionate allocation of public funds caused by political partisanship. Thus, the parliamentary majority was accused of distributing transfers from the State Budget to local budgets based on political criteria.

The draft 2021 State Budget Law provided for transfers from the State Budget to local budgets for capital expenditure amounting to MDL 52 million. After examining the Budget Law in the first reading, on 3 December 2020, several amendments were submitted which provided for, among other things, the increase of transfers from the State Budget to the LPA budgets. Having analysed the MPs' amendments, the Government issued an unusual opinion. Thus, although it was acknowledged that the requested funds exceeded the financial possibilities, the Government identified ways to redirect funds to increase transfers to local

budgets for capital expenditure, while the decision on the [distribution of budgetary resources was left to the parliamentarians](#). The following argument was used to this end: 'Given that the financial resources requested for the local public authorities for capital expenditure exceed the financial possibilities, as well as that these requests are largely related to the development of road infrastructure, possibilities have been identified to redirect for these purposes financial resources from the National, Local, Communal Road and Street Repair Program (which were supposed to be distributed by Government decision) in the amount of MDL 203.1 million and from general purpose activities – MDL 100.0 million.' As a result, in the final version of the 2021 State Budget, voted on 16 December 2021, the transfers from the State Budget to local budgets for capital expenditure increased to about MDL 408.8 million, of which: MDL 242.6 million allocated to the level-one LPAs and MDL 166.2 million – to the level-two LPAs.

First of all we should think about the timeliness of increasing the transfers for capital expenditure at local level. In the context of a pandemic crisis, a question arises: 'What was more appropriate, to redirect resources to health care, in particular for the purchase of effective anti-Covid vaccines, or to allocate funds to other areas, including the increase in capital expenditure at local level?' There is no straightforward answer to this question. However, the fact that the draft budget, which is basically the result of an exchange of information between the Ministry of Finance and the local public administration, provided for a modest amount for capital expenditure transfers shows that local authorities were, to a certain extent, ready for reduced capital expenditure. It means that capital expenditure transfers were 'inflated' at central level and politics was one of the reasons why it happened.

Public investment is not made in a 'holistic' manner either. At present, both in Chisinau and at national level, [public investment is made predominantly on an ad hoc basis](#), without a detailed analysis of the benefits of these investments, without a comparison of these benefits, without prioritizing them. In fact, there is no clear vision in the Republic of Moldova, at both national and local level, about how capital expenditure should be spent in order to stimulate socio-economic development. As a result, there are no plans in place, including the level of administrative-territorial units, for the implementation of capital expenditure. Obviously, this affects the efficiency of capital expenditure. Therefore, capital expenditure transfers from the State Budget to local budgets are distributed chaotically, including under the voting of the 2021 State Budget Law, and political interests are the decisive driver of this distribution. Moreover, the impact of the political factor on the distribution of public funds compromises the appropriateness of the decision to increase the capital expenditure transfers from the State Budget to local budgets.

3.3 Distribution of capital expenditure transfers

The political aspect of the distribution of transfers for capital expenditure from the State Budget to the local budgets is best revealed by a statistical analysis. To begin with, we compared the transfer distribution provided for in the draft budget with the distribution from the final version of the budget. The following classification was used to perform this exercise:

1. *Level-one LPAs* – level-one local public authorities to which the municipalities of Chisinau and Balti were added;
2. *Level-two LPAs* – the 32 districts controlled by the constitutional authorities of the Republic of Moldova and the administrative-territorial unit of Gagauzia.

The government was defined as the coalition between PSRM and PPPM, the latter consisting of PPSOR and a group of unaffiliated MPs. In addition to having voted together for several regulatory acts in December 2020, including the 2021 State Budget Law, these political parties formalised their coalition by jointly nominating a candidate for Prime Minister. Thus, an administrative-territorial unit is considered affiliated with the government if the mayor (in case of level-one LPAs) or the district president (in case of level-two LPAs) is a representative of the PSRM or PPSOR. The Governor of Gagauzia was also considered a person affiliated with the Government. This approach was determined by the open support offered by the governor of the region to Igor Dodon (current president of PSRM and former President of the Republic of Moldova; during his presidency, he was also the *de facto* leader of the PSRM) in the presidential election campaign.

Also, in order to highlight the level of political clientelism, we used transfers per locality, not transfers per capita in locality. Although it would seem that per capita transfers might provide a greater precision regarding the benefits obtained by the citizens of a settlement from the allocation of funds, the specialised literature operates with both per capita transfers and per settlement transfers. The researchers Johansson (2001) and Deda and Kauchakje (2019) operated with per capita transfers specific for an administrative-territorial unit, whereas Khemani (2003) and Simón-Cosano, Lago-Peñas and Vaquero (2012) – with transfers per administrative territorial unit. The studies on political clientelism in the Republic of Moldova also used different approaches: [Romaniuc \(2012\)](#) used the ratio between the amount of transfers for capital investment and own revenues of each settlement; [Melesteian \(2018\)](#) calculated an index of clientelism representing the ratio between the amounts received by the local administrations representing those in government and the ones obtained by those in opposition, adjusted to the relative number of local administrations representing each camp; [Fala, Nemerenco, Pintea and Rusu \(2020\)](#) developed a clientelism index obtained by dividing (1) the ratio of the total amount of funds allocated to the settlements led by the representatives of those in government to the total amount of financial resources allocated to the settlements run by the exponents of the parties that do not represent the government to (2) the ratio of population size in the settlements with an administration that is affiliated with the government to the population size in the settlements whose leadership is not affiliated with the government.

In addition to the fact that specialised literature does not give preference to a certain way of expressing transfers, the decision to use transfers per settlement was also determined by statistical constraints. Currently, in the Republic of Moldova, the data on population actually living in a settlement is contradictory and only partially reflects the reality. This state of affairs is exemplified by the data on the total population number. The National Bureau of

Statistics estimated that as of 1 January 2020 the number of population with usual residence, which includes people who in the last 12 months have lived mainly on the territory of the Republic of Moldova regardless of temporary absences, was 2.6 million people. However, when calculating the inter-budgetary transfers for 2021, the Ministry of Finance used different information, according to which, as of 01 January 2020, the population of the Republic of Moldova slightly exceeded 3.2 million people. This figure is close to the number of present population, which is determined based on the 1989 census results and the data on the natural and migratory movement of population since the census date and until the reference year, i.e. 2020. Although the present population and the usually resident population are 2 distinct categories, a very large difference between these indicators raises questions about the relevance of the data. In this context, in order to avoid the use of data that are not accurate enough, it was decided to use transfers per settlement for the purpose of calculations. At the same time, in order to better reflect the distribution of transfers and to increase the homogeneity of indicators, the analysis was performed on 3 levels: (1) cities, including the municipalities of Chisinau and Balti; (2) the villages represented the level-one local public authorities; (3) 32 districts and the administrative-territorial unit of Gagauzia.

The calculation of some types of inter-budgetary transfers, such as the general purpose transfers to level-one LPAs and level-two LPAs or the road infrastructure transfers intended for level-one LPAs is made according to the population number in settlements. This situation creates a false motivation for mayoralties. Mayors are not interested in reflecting the actual number of people in the settlement because a possible reduction in the number of inhabitants will result in a decrease of transfers from the State Budget. In its turn, the Government turns a blind eye to this practice, although it is aware that the number of people in settlements used to calculate transfers does not correspond to the actual number of inhabitants. For the Government, finding out the actual number of population may have two consequences: it would be necessary either to reduce the amount of transfers, which could lead to a greater impoverishment of settlements, or to change the transfer calculation formulas, resulting in a smaller share for the population. Perhaps, the current sub-optimal balance is much more acceptable for the Government, with allocations calculated based on an overestimated number of inhabitants, than to make an additional effort for determining the actual number of population and changing the calculation formulas. This raises another question though: Given the intense migration processes, how appropriate is it to calculate inter-budgetary transfers according to the population number? The internal migration, from villages to cities, as well as the emigration from the Republic of Moldova cause a high variability of the population number in settlements, thus an accurate estimation of the number of inhabitants becomes a difficult task. Consequently, for a number of settlements, in the case of transfers estimated according to the population number, the volume of transfers allocated might not correspond to the amount of transfers that actually need to be allocated. It would probably be more appropriate to develop formulas that take into account other factors, which can be estimated periodically with a high degree of accuracy. For example, in the case of road infrastructure transfers for level-one LPAs, it would be appropriate to calculate the amount of allocations according to the length of local roads and not according to the number of inhabitants.

The first indication of the existence of political clientelism in the case of capital expenditure transfers from the State Budget to local budgets can be deduced by comparing the total amount allocated to the administrative-territorial units specified in the draft budget with the amount of transfers established in the Budget Law. The draft 2021 State Budget Law provided that capital expenditure transfers from the State Budget to local budgets should be allocated as follows: MDL 22.4 million for the level-one LPAs led by individuals not affiliated with the government (to be allocated to 23 mayoralties) and MDL 2.9 million for the level-one LPAs with mayors affiliated with the government (to be allocated to 5 mayoralties). The distribution of funds in the final version of the Budget Law was different: MDL 120.9 million for 281 mayoralties managed by individuals not affiliated with the government and MDL 169.6 million for 162 settlements led by mayors affiliated with the government. As a result, the localities whose mayors are representatives of the ruling parties will benefit from inter-budgetary transfers that are 40.2% (MDL 48.8 million) higher than the financial resources to be allocated to the cities and villages whose leadership is not affiliated with the government. The situation is similar in case of transfers to level-two LPAs. The draft State Budget Law provided that level-two LPAs not affiliated with the government were supposed to obtain about MDL 24.4 million (distributed to 3 districts), and the level-two LPAs affiliated to the government were supposed to receive about MDL 2.4 million (distributed to 2 districts). The final version of the Budget Law provided that level-two LPAs with leaders affiliated to the government would receive MDL 89.4 million (allocated to 15 districts and the administrative-territorial unit of Gagauzia), and the 6 districts administered by the exponents of non-governing parties would obtain about MDL 29 million. Thus, the administrative-territorial units with leaders affiliated with the Government will receive amounts that are three times higher than the transfers provided to the districts with where the leadership is not affiliated with the government. Out of all level-two LPAs, Orhei district, whose president is a member of PPSOR, obtained the largest transfer from the State Budget (MDL 54 million).

A more conclusive picture of political clientelism in the case of special purpose allocations for capital expenditure is provided by the analysis of key trends, such as averages and medians¹, specific to the data series that reflect transfers from the State Budget to local budgets. This study analysed the general purpose transfers (GPT) and 3 most important types of special purpose transfers: transfers for general education (TGE), capital expenditure transfers (CET) and road infrastructure transfers (RIT). It is anticipated that in 2021 TGE, CET and RIT will account for about 99% of the special purpose transfers to level-one LPAs and about 93% of the special purpose transfers to level-two LPAs. In terms of averages of the series, the biggest difference, expressed as a percentage, is found when comparing the capital expenditure transfers to the administrative-territorial units that have government-affiliated leaders with the budgetary allocations to the territorial units whose leaders are not affiliated with the government. The difference is 100% in the case of level-two LPAs, about 642% in the case of cities and almost 134% in the case of villages. However, taking into account that most series do not have normal probability distributions, it would be

¹ A median divides the series into two equal parts

appropriate to look into the differences between the medians. In the case of general purpose transfers, general education transfers and road infrastructure transfers, there are insignificant statistical differences or significant statistical differences favourable to the settlements and districts whose leaders do not represent the governing coalition parties (higher median values specific to the administrative-territorial units whose leaders are not affiliated with the government in relation to the medians corresponding to the administrative-territorial units whose leaders are affiliated with the government). The situation is different only in the case of capital expenditure transfers. First of all, the fact that the medians specific for the transfers to administrative-territorial units with leaders representing the governing parties are much higher than the medians associated with the transfers to the settlements and districts administered by representatives of the parties that are not in power. However, while in the case of cities and villages these differences are statistically significant, then for the level-two LPAs the discrepancies are not statistically significant. In fact, the medians corresponding to the series reflecting the allocations to the districts and settlements whose leaders are not government-affiliated equal 0 (Table 2). This shows that at least half of the administrative-territorial units headed by individuals not affiliated with the governing parties did not receive capital expenditure transfers from the State Budget. In fact, data on the approved transfers highlight better the way administrative-territorial units with leaders not affiliated to the government were disadvantaged. Thus, the Parliament decided that capital expenditure transfers from the State Budget shall be made to 44.1% of localities run by mayors not affiliated with the government (281 out of 637 settlements), while the transfer coverage for cities and villages run by those close to the ruling parties accounts for about 69% (162 out of 235 settlements). In the case of level-two LPAs the situation is similar: about 43% of districts with presidents not affiliated to the government (6 out of 14 districts) are to benefit from transfers for capital expenditure, while it will be 80% of administrative-territorial units run by people close to the governing parties (16 of 20 administrative-territorial units) that will get allocations for capital expenditure from the State Budget.

Table 2. The key trends (average and median) specific to the series reflecting the transfers for capital expenditure from the State Budget to the budgets of administrative-territorial units with leaders that are affiliated/not affiliated to the government (Government/Opposition)

ATU TYPE	TYPE OF TRANSFER	AVERAGE (GOVERNMENT), MDL	AVERAGE (OPPOSITION), MDL	AVERAGE (DIFFERENCE), %	MEDIAN (GOVERNMENT), MDL	MEDIAN (OPPOSITION), MDL	MEDIANS (DIFFERENCE), %	COMMENT
1	2	3	4	5=(3-4)/3	6	7	8=(6-7)/6	9
Districts and ATU Gagauzia	GPT	34475.27	35843.33	-3.82	34803.4	33005.2	5.45	No significant
	TGE	146462.8	138120.6	6.04	124514.8	132673.7	-6.15	No significant
	CET	4467.64	2227.46	100.57	615.25	0	X	No significant
	RIT	15926.53	13564.37	17.41	15029.6	13169.4	14.13	No significant
Cities (except Chisinau and Balti municipalities)	GPT	1343.76	1672.06	-19.63	1049.6	1665.75	-36.99	No significant
	TGE	11528.18	14920.03	-22.73	9967.7	11457.85	-13.01	No significant
	CET	2464.41	332.18	641.89	1675.3	0	X	Significant difference**

	RIT	1194.04	1530.13	-21.97	984.25	1490.45	-33.96	Significant difference**
Villages	GPT	981.46	1044	-5.99	1006.25	1055.80	-4.69	Significant difference**
	TGE	1847.45	2349.61	-21.37	1523.3	1818.95	-16.25	Significant difference**
	CET	404.27	172.82	133.92	300	0	X	Significant difference**
	RIT	229.28	284.2	-19.32	194.9	227.45	-14.31	Significant difference**

Source: developed by the authors

Note: GPT – general purpose transfers; TGE – transfers for general education; CET – capital expenditure transfers; RIT – road infrastructure transfers. Two tests were applied in order to test the statistical significance of the difference between the key trends: (1) T-Student in cases where the series has a normal probability distribution and (2) Mann-Whitney-Wilcoxon, marked with **, for the series that do not have a normal probability distribution. The T-Student test compared the series averages, and the Mann-Whitney-Wilcoxon test was used to compare the series medians. We used * to show that the T-Student test was applied to test the difference between the series, and ** to show that the Mann-Whitney-Wilcoxon test was used.

The impact of political clientelism on the distribution of capital expenditure transfers from the State Budget to local budgets is revealed by a regression analysis. Moreover, in studies abroad, regressions are widely used to test the presence of the political factor in the distribution of public fund transfers from the central to the local level. In order to assess the influence of politics on the distribution of transfers from the State Budget to local budgets, several estimates were made. Several regressions were run, in which the following types of transfers from the State Budget to local budgets were used as dependent variables: general purpose transfers, transfers for general education, capital expenditure transfers and road infrastructure transfers. The dependent variables were represented by the transfer values set out in the 2021 State Budget Law. To ensure some homogeneity, the regressions were run for 3 levels: Level-two LPAs and Gagauzia, cities and villages (Table 3). The regressions for the level-two LPAs included the following independent variables: population number (data used by the Ministry of Finance when calculating transfers), average salary and political affiliation. Due to the absence of statistical data reflecting the socio-economic situation at locality level, the estimates for cities and villages used only the population number and political affiliation as independent variables. Political affiliation is a binary variable that takes the value of 1 if the administrative-territorial unit is led by an individual affiliated to the government or 0, if the district or the settlement is led by an individual not affiliated with the government.

Table 3. Results of the estimates reflecting the influence of the decisive factors behind the transfers from the State Budget to local budgets.

ATU TYPE	REGRESSION	NUMBER OF OBSERVATIONS	R ² /adjusted R ²
Districts and ATU Gagauzia	$\ln(\text{GPT}) = 9,43^{***} + 0,94 \cdot \ln(\text{POP})^{***} - 0,296 \cdot \ln(\text{SAL}) - 0,004 \cdot \text{PA}$	32	0,9601/0,9558
	$\ln(\text{TGE}) = 6,49^{***} + 1,01 \cdot \ln(\text{POP})^{***} + 0,11 \cdot \ln(\text{SAL}) - 0,046 \cdot \text{PA}$	33	0,9548/0,9499
	$\ln(\text{CET}+1) = -27,58 + 1,16 \cdot \ln(\text{POP}) + 2,45 \cdot \ln(\text{SAL}) + 4,35 \cdot \text{PA}^*$	33	0,1002/0,0038
	$\ln(\text{RIT}) = 16,24^{***} + 0,98 \cdot \ln(\text{POP})^{***} - 1,24 \cdot \ln(\text{SAL})^* + 0,08 \cdot \text{PA}$	33	0,6271/0,5872
Cities	$\ln(\text{GPT}) = 9,2^{***} + 0,55 \cdot \ln(\text{POP})^{***} + 0,005 \cdot \text{PA}$	48	0,7038/0,6907
	$\ln(\text{TGe}+1) = 2,99 + 1,44 \cdot \ln(\text{POP})^{***} - 0,42 \cdot \text{PA}$	50	0,4246/0,4001
	$\ln(\text{CET}+1) = -1,27 + 0,83 \cdot \ln(\text{POP}) + 7,28 \cdot \text{PA}^{***}$	50	0,2674/0,2362
	$\ln(\text{RIT}) = 5,5^{***} + 0,93 \cdot \ln(\text{POP})^{***} + 0,16 \cdot \text{PA}$	50	0,9207/0,9173

Villages	$\ln(\text{GPT})=11,62^{***}+0,29\cdot\ln(\text{POP})^{***}+0,003\cdot\text{PA}$	822	0,2269/0,225
	$\ln(\text{TGE}+1)=-3,22^{**}+2,25\cdot\ln(\text{POP})^{***}-0,24\cdot\text{PA}$	822	0,1704/0,1684
	$\ln(\text{CET}+1)=9,1^{***}-0,48\cdot\ln(\text{POP})+3,21\cdot\text{PA}^{***}$	822	0,05364/0,0511
	$\ln(\text{RIT})=4,86^{***}+0,99\cdot\ln(\text{POP})^{***}+0,01\cdot\text{PA}$	822	0,9863/0,9863

Source: developed by the authors

Note: GPT – general purpose transfers; TGE –transfers for general education; CET – capital expenditure transfers; RIT – road infrastructure transfers; POP – population; SAL – average salary; PA – political affiliation; ***/**/* – the variable is statistically significant for 1/5/10%.

The estimates show that the political affiliation is statistically significant and has explanatory capacity only in the case of transfers for capital expenditure. Thus, it is predictable that the administrative-territorial units run by people affiliated to the government receive much larger transfers for capital expenditure compared to the districts and settlements administered by individuals that are not affiliated with the government. For the other types of transfers from the State Budget to the local budgets, the only explanatory variable is the population number. This is explained by the fact that some of the transfers, such as general purpose transfers or road infrastructure transfers intended for level-one LPAs, are calculated based on the population number. At the same time, there is a high correlation (98%) between the number of students and the population number. As a result, the population number (which is a proxy indicator for the number of students) has a high explanatory capacity in the case of mainstream education transfers, whose calculation also takes into account the number of students.

IV.The implications of clientelism for public policies

4.1 Reduction of political pluralism

Clientelism affects negatively the political competition between parties. Opposition parties can hardly compete with the governing parties, which apply and use clientelistic practices when distributing funds or approving decisions that openly benefit the parties in power. Approving the mixed electoral system, establishing a monopoly on state resources and implementing policies with electoral overtones have all been a [benefit to the ruling party](#). Thus, the good results obtained by the Democratic Party and the Socialist Party in the 2019 election, which were better compared to the 2014 parliamentary election (Figure 1), confirm that the clientelistic parties in power have a major influence on voters to the detriment of opposition parties. Under such circumstances it is very unlikely for the opposition parties to come into power. Researcher Larry Diamond, having analysed clientelistic parties and hybrid regimes, found that the high level of clientelism leads to electoral hegemony (domination of a particular party), and the victory of opposition parties '[requires a level of mobilization, unity, skill, and heroism far beyond what would normally be required in a democracy](#).'

Figure 1. [Results of the 2019 parliamentary election](#)

	Result, %	Number of seats	The difference in the number of

			seats compared to the previous election
Party of Socialists of the Republic of Moldova	31.15	35	+10
Democratic Party of Moldova	23.62	30	+11
Electoral bloc ACUM, DA Platform and PAS ²	26.84	26	+26
'Sor' Political Party	8.32	7	+7
Independent candidates	-	3	+3

Similarly to a market economy that does not work unless there are clear rules on fair competition, political pluralism is adversely affected when stakeholders use abusive practices. PPSOR is supported and financed from [not-so-transparent financial sources](#) without submitting data on the identity of donors or the origin of the money. [In an interview](#), Ilan Sor mentioned that some of the projects in Orhei were financed by private companies that offered money to the 'For Orhei' association. The lack of transparency regarding both precise amounts and identity of the donors does not allow assessing the connections and potential benefits obtained by these private companies (e.g. construction permits, access to public procurement contracts, subsidies, reduced number of controls) as a result of supporting the public authority led by the representative of this political party.

It is not only PPSOR that applies such a practice. It was fully exploited by the Democratic Party through the 'Edelweiss' foundation until the summer of 2019 and is currently being applied by the PPPN led by the mayor of Balti, Renato Usatii. For example, both in 2016 and in 2021, the mayor donated [several special vehicles](#) to the municipality.

These private financial resources enable the implementation of certain projects (see section 4.2 for examples) which, in the short term, are appreciated by the inhabitants of the community where they are implemented. However, in the long run it distorts the political system and does not allow for a debate of ideas and public policies among the political actors engaged in electoral competition. At the same time, this doubtful financing practice generates resources both for the election campaign and for maintaining the resilience of the clientelistic networks existing between the party and its voters.

In a [research](#) that aimed at measuring the impact of clientelism in Brazil, it was found that the ruling political parties have an advantage over the other parties as a result of clientelistic practices, especially among vulnerable segments of society, such as the poor and the elderly. A relevant example in the case of the Republic of Moldova would be the one-time payment for the retired offered on the eve of holidays, but especially just before election campaigns. For example, just before the 2020 presidential election, the authorities offered an one-off payment of MDL 900 to the retired whose pension is under MDL 3,000. Igor Dodon, the

² The parties that formed the electoral bloc ACUM were not in Parliament during 2014-2019

incumbent president and an independent candidate, was the one who took credit for this initiative. Recently, Mr. Dodon also stated that the pensioners and beneficiaries of social aid will receive [another one-off payment worth MDL 1,000](#) if the bloc of socialists and communists wins the early parliamentary election of July 2021. A key element of clientelism, mentioned above, is the repetitive nature of transfers between policy makers and certain groups of citizens. These conditional one-off payments, conditioned by winning an election and targeting vulnerable groups just before election campaigns, are a form of political clientelism. Instead of debating and identifying sustainable solutions to increase the long-term income of these groups, politicians prefer repetitive interventions to keep those groups captive and to influence the way they vote. Taking into account that some voters believe that the additional financial support is conditioned by the political power that gets to rule, they may be reluctant to reject this clientelistic government (see also section 2.3 – about clientelism as a matter of collective action).

Providing the retired with these one-off benefits, which are repeated from time to time, has obvious electoral reasons behind it. For example, according to the 2021 [public opinion](#) barometer, 31.5% of people over 60 would vote for PSRM and PCRM, and only 27.6% for PAS. Data on the participation in potential elections are even more interesting. The 60+ age group is most active in this respect. More than 73.6% of these people responded that they would definitely cast their vote (the highest percentage) and only 5% of them said they would definitely not participate in the election (the lowest percentage). Thus, the clientelistic practices allow this unevenness of the electorate to be exploited depending on age and political preferences.

4.2 Substituting the activity of public institutions

In political systems with a high level of clientelism, there is a tendency to substitute public institutions, i.e. some of the exclusive functions of the public authority in reality are presented as a direct success of the ruling party. This can be noticed by analysing news and press releases issued by the Orhei mayoralty:

- [We've done it this year too! Orhei is ready for Easter, with clean streets and new road marking](#): 'Similarly to the previous years, we use high quality paints, which have a high degree of durability. As it has become something natural since Ilan Șor's team is at the helm of Orhei, the road markings are applied according to European standards.'
- [Another 40 people benefited from one-off material aid from the Reserve Fund of Orhei Mayoralty](#): 'The project initiated by Ilan Șor continues, and the local elected officials at the last meeting of the Municipal Council approved the decision to allocate one-off material aid to the elderly or those suffering from incurable diseases.'
- [In Orhei, Ilan Șor's team started extensive works to modernize the secondary streets](#): 'After all the main roads in Orhei were renovated last year, the local authorities in Ilan Șor's team continue the implementation of the program's second phase – the rehabilitation of secondary roads.'

Thus, all infrastructure projects are implemented by the local authorities that are part of Ilan Sor's team and not by the local authorities elected by citizens; the social initiatives financed from public money are the initiatives of the honorary mayor and not of the institutions responsible for this area; the construction sites are inspected by the vice-presidents of PPSOR and not by the civil servants who manage this field; and the workers of the municipal enterprises paid from public money join the sanitation campaigns organised not by the local authorities but by the PPSOR team.

One of the typical elements of democracy is the peaceful transfer of power and special established periods for debating electoral ideas and programs. However, when politicians are elected, they should, first of all, identify themselves with the public office and that means representing all citizens and only secondly should they identify themselves with the political party that allowed them to get the position. Given the aforementioned examples, there is a strong trend to personalise public institutions and erase the line between a political party and the local public authority.

These examples confirm once more that clientelism is also an issue caused by lack of collective action. If it's political parties, not local public authorities, that are responsible to provide the most important services, some citizens could be refrain from voting against that party or vote for other electoral contenders, because some projects that started or are being implemented could be stopped. This is one of the reasons why PPSOR uses clientelism deliberately, like a political strategy. However politicians and political parties are an ineffective substitute for public institutions that should provide services to citizens. Otherwise, the largest share of financial resources will continue to be directed at groups of citizens who promise to keep rewarding them with electoral support.

4.3 Centralising the appropriation of funds for public investment

Several studies carried out in [India](#), [Venezuela](#) and [Indonesia](#) proved the tight connection between clientelism and centralisation of power in the country. The reason behind this correlation is enrooted in processing information regarding elections and, implicitly, manipulating voters. Thus, resources are allocated as to favour the ruling party during the next election. At the same time, the rationale behind appropriation at central level could spread at the local level, too: mayoralties that belong to the governing alliance, receiving disproportionate resources, allocate them disproportionately in their turn, depending on the political preferences of the groups of inhabitants.

According to the [previous study](#) on clientelism carried out under the Project, the clientelism indicators in Moldova increased after the Parliamentary Election of 2019. Thus, in 2018, an inhabitant of a government-affiliated locality could have benefited from an allocation 2.3 times higher than a person living in a locality not affiliated with the government. In 2019, an inhabitant of a government-affiliated locality was 2.6 times more advantaged than a person from a locality not affiliated with the government. As the largest part of local budgets

consists of transfers from the State Budget, there was noticed a direct connection between political affiliation of local governments and the size of the transfers. Thus, disproportionate centralisation of power at central level makes it possible to have a vertical clientelism relationship between central and local authorities, where central-level policy-makers have a capacity deemed to be disproportionate in allocating resources to local public authorities.

Usually, when budgets are managed by politicians, capital investment projects are selected mostly for political reasons. Such investment projects do not always have the strongest business rationale and do not generate public benefits for citizens and community. For instance, the cost incurred by the state for [Arena Chisinau](#) was over MDL 200 million, but it is still not being used. However, excessive centralisation of capital investment decisions at central level worsens this issue, raising political pressure on mayors that are not affiliated to the government parties.

The lack of own financial resources, as well as the lack of clear criteria for the distribution of capital investment funds, affect the ability of local authorities to implement projects that raise the quality of life. This vulnerability is skilfully exploited by the ruling political elites who, directly or not, condition the provision of financial resources. Administrative and financial decentralisation is an important tool for reaching the goals to modernise public administration, raise the quality of public services and reduce clientelism. During a public call, representatives of CALM reiterated their request to depoliticise the national funds by distributing them in line with objective criteria, not because of the mayor's political colours.

Nevertheless, both in terms of decisions and funds, local authorities depend to a large extent on the transfers from the central budget. In 2020, the Government even suggested to cap the local fees and the reason was that companies needed to be able to plan better their businesses. However, capping the fees means a step back in the decentralisation process, because in most localities the local budget consists of State Budget transfers to an extent of over 60 per cent. [The way they are approved](#) also reveals the lack of an authentic dialogue between local and central authorities, as well as an misguided understanding of the local authority autonomy principle

A thorough analysis of the way financial resources meant for capital investments are distributed revealed that these transfers are affected by clientelism (see Chapter 3). Political criteria play a determining role in allocation of funds from central to local level.

4.4 Deficient and non-transparent involvement of the private sector

An element of local clientelism with the involvement of economic operators is financing certain works but presenting it as a donation: the public authority can show development results in the community and the company may benefit of certain preferential treatment in the future, such as advantages when local construction permits are granted.

For instance, several companies that have economic interest in Chisinau municipality, some of them having lawsuits against the municipal authorities, financed the repairs of certain

public objects located in the capital. During November 2019 – December 2020, 8 works qualified as ‘donation’ have been carried out only in Botanica sector, worth of MDL 5.7 million. Although this kind of works favours obtaining political capital for the local public authority, this clientele-like symbiosis distorts competition, reduces transparency and creates toxic stimuli as companies that ‘donate’ to the City Hall could have certain expectations in exchange for the donations they make.

In this context, [Ziarul de Garda](#) published recently an investigation on the financing of repair works carried out by private companies and Chisinau City Hall refused to provide information about the names of companies that performed these ‘free-of-charge’ works for Chisinau. Several construction companies were involved in real estate scandals and a company that, while sponsoring certain works for Chisinau City Hall, was also carrying out multiple works in the capital being paid from public funds; another company with the same beneficiary won to tenders worth MDL 17 million. Another company, which was repairing ‘for free’ the underground passage at the Dacia Boulevard and Teilor Street crossing, had reported much lower income over the last years.

The practice of accepting such ‘free’ investment is vicious and it raises multiple questions, especially when there is no transparency regarding the amount of contribution and the investor’s identity. Low transparency is a favourable medium for clientelism development.

4.5 Little attention to the clientelism issue

Clientelism is the opposite of good governance and this leads to the fragility of democratic institutions, which are constantly shaped based on narrow political and economic interests. During the plenary meetings of the Xth legislature Parliament (February 2019 – July 2021), the topic of political clientelism was brought up only three times and only by opposition forces:

1. While discussing Law No 199/2010 on the Status of Public Dignitaries, according to which ‘the person that holds the position of a State Secretary shall have the right to carry out remunerated activities on the Management Board of a state-owned entity or on the Board of a joint-stock company where the state holds shares’, the [MP Sergiu Litvinenco](#) underlined that the aforementioned amendments raise a higher risk to deepen political clientelism, given that state secretaries are politically appointed public dignitaries. During the same discussion, the suggestion to repeal para.3 of Article 8 of the Law No 158/2008 that imposes organising a recruitment competition for filling a senior public management position was criticised.
2. In her speech [Ms. Maia Sandu](#), designated candidate to the position of Prime-Minister of the Republic of Moldova, listed clientelism reduction as a priority of the governance program.

3. During an intervention, [MP Dumitru Alaiba](#) mentioned the minor and insufficient role that the General Prosecutor's Office and the National Anti-Corruption Centre have in investigating various corruption and clientelism schemes. At the same time, the MP highlighted the major role that media have in informing citizens 'about favouritism, clientelism, conflicts of interest in privatisation processes, about severe legal violations'.

The fact that the government have never brought up the issue of political clientelism is an interesting observation per se. As clientelism affects negatively the country's development, it is important to join efforts to combat this phenomenon. There are subjects and issues that need a joint effort of the government and the opposition. Clientelism, which manages to adapt quickly to the new reality and which also exists in countries with a much stronger governance than Moldova does, is one of such subjects.

V. Conclusions and recommendations aimed at reducing clientelism

Political clientelism showed a high ability to adapt in various democratic systems. The political clientelism phenomenon, though being much more spread and advanced in developing systems, it continues to exist in countries with efficient and functional institutions. Efforts made by the authorities of the Republic of Moldova to fight this phenomenon are modest and sometimes even inexistent. For example, over the last two years the issue of clientelism was mentioned in the Parliament just three times, but no solutions and actions were suggested to diminish this phenomenon.

The specialised literature finds that political clientelism shows up in cases when there is no clear regulation on the distribution of inter-budgetary transfers. In this context, politicians, especially the ones representing ruling parties, have a large degree of discretion and they distribute budgetary funds depending on the interest of their party. Moreover, parties change the transfer distribution tactics depending on the type of election. For instance, in case of local elections, financial resources may be distributed at sub-national level in favour of the parties affiliated with the government, so that they obtain good electoral results allowing them to form regional governments, while in case of national elections transfers are aimed at mobilising the voters, especially in the regions where inhabitants would be motivated to vote for parties affiliated with the government, thus getting them more seats in the Parliament.

For the Republic of Moldova, allocation of budgetary resources from the central to the local level based on political criteria is a common practice. No exception to this rule was made when approving the 2021 State Budget. Nevertheless, it is worth mentioning that most transfers from the State Budget to the local budgets are regulated and established on the basis of clear criteria, which leave not so much space for politicians' discretion. In case of inter-budgetary transfers, political clientelism shows up in the transfers from the state to the

local budgets for the purpose of capital expenses, because there is no mechanism that would regulate the distribution of funds for this type of transfers. Actually, the empirical analysis carried out by means of econometric estimates showed that political clientelism is an explanatory factor only in case of transfer for capital expenses.

In order to reduce political clientelism and to increase the efficiency of capital expenditure financed by allocating transfers for capital expenditure from the State Budget to local budgets, the following is recommended:

- ✓ Make additional efforts for the **institutional development and strengthening of the public authorities** responsible to ensure the integrity of political competition (e.g. Central Electoral Commission, National Integrity Authority, Court of Accounts, General Prosecutor's Office, National Anticorruption Center, etc.);
- ✓ **Improve the quality of public services provided by the authorities.** When citizens are sure that they have access to quality and fast services, then they no longer need to ask for the involvement of the political factor in order to obtain certain favours, thus contributing to the diminution of political clientelism;
- ✓ **Increase transparency and participation** of citizens, civil society, businesses, academia and other stakeholders in decision-making and preparation of the national public budget;
- ✓ **Delegate responsibilities** regarding the distribution of public resource allocations to the politically independent institutions or **allocate transfers on the basis of specific regulations.** The regulations are usually transposed into formulas or mechanisms which provide that the amount of transfers is determined according to objective socio-economic factors, such as the number of students, the length of roads or the income of the population;
- ✓ **Establish a mechanism for evaluating all investment projects** – systematic evaluation will allow a better concentration of the state's financial effort, facilitate access to new development funds, and increase the chance of financing the projects, which are really needed for the economic recovery of the Republic of Moldova, both at national and local level;
- ✓ **Based on the evaluation results, develop the universal list of investment projects**, i.e. these projects will be a priority for state funding, including through inter-budgetary transfers. These projects can also be supported by issuing municipal bonds or negotiating public-private partnership agreements;
- ✓ **Build the capacity of both central and local authorities** responsible for assessing and analysing the economic benefits of investment projects. Introduce the obligation to apply the ex-ante and ex-post analysis mechanism for public sector investments made out of public funds;
- ✓ **Increase the transparency of investment projects** and [publish in detail the proposed projects](#);
- ✓ **Clarify the situation regarding the infrastructure projects** implemented on the account of donations from economic operators or other stakeholders. In order to ensure monitoring and reduce number of cases when favours and advantages could

be offered to these economic operators, a register should be developed specifying the details and conditions of these donations.

Nonetheless, it is important to note that the phenomenon of clientelism cannot be eliminated entirely: even if the transfers are calculated solely based on formulas that does not guarantee a total immunity from political clientelism. The ruling parties can change formulas for calculating inter-budgetary transfers in order to achieve their political goals. For example, if the ruling party is supported by the elderly, then the mechanism for distributing transfers can be modified so that areas with a higher share of the elderly benefit from budgetary allocations. Still, public policies and the work of authorities should contribute to the reduction of this phenomenon in the society. Given the harmfulness of this practice for the development of the country, it is necessary to initiate a dialogue between political actors, both the ruling and opposition parties, in order to support a package of measures to improve the legislative framework and the public finance management. The struggle with clientelism will continue beyond the mandate of one government and this is an additional reason for a dialogue between the political forces. Harmful and flawed practices should not be left-wing or right-wing issues, but should be struggled with by all political actors because they affect the economic development and citizens' quality of life.

Expert-Grup

+373 22 929 994

str. A. Bernardazzi 45
MD-2012, Chişinău
Republica Moldova

info@expert-grup.org

IPRE

+373 22 788 978

+373 22 788 986

+373 22 788 989

str. Bucureşti 90, of. 20
MD-2001, Chişinău
Republica Moldova

info@ipre.md