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**JOINT STAFF WORKING DOCUMENT**

**Association Implementation Report on Moldova**

## Association Implementation Report on Moldova

### 1. Summary

In line with the revised European Neighbourhood Policy<sup>1</sup> (ENP), this report sets out the state of play of the commitments of the Republic of Moldova (hereinafter Moldova) under the EU-Moldova Association Agreement since the last meeting of the EU-Moldova Association Council on 3 May 2018 and ahead of its next meeting of 30 September 2019. This report serves as the basis for the review of the Association Agenda.

The EU-Moldova Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA) and the revised Association Agenda<sup>2</sup> continued to guide EU-Moldova bilateral relations. The EU and Moldova pursued political dialogue through the Association Council, the Association Committee, the Association Committee in Trade Configuration and the subcommittees.

The invalidation of the June 2018 mayoral elections in Chişinău – won by opposition leader Andrei Năstase – was regarded as non-transparent by the EU and other international actors. The investigation of the major banking fraud that took place in 2014 was not advanced in a way that would bring those responsible to justice or that would result in significant progress in the recovery of the lost assets. The reform of the justice sector remains to be addressed and the use of pre-trial detention and non-transparent judicial proceedings remains common.

In light of these developments, the European Union took the decision to substantially recalibrate and reduce its financial assistance and to focus on projects that have a direct impact on the people of Moldova. For the same reason, payments under the macro-financial assistance (MFA) and EU budget support programmes were put on hold in 2018.

Non-conclusive attempts to form a government followed parliamentary elections on 24 February 2019 and lasted for 3 months. At the beginning of June 2019, a complex political and constitutional crisis unfolded in which a new government was voted in by the Parliament but not recognised by the old caretaker government, with the Constitutional Court supporting the latter. This situation was eventually solved in mid-June 2019. The annulment of the relevant Constitutional Court decisions followed. In the programme agreed between the two coalition parties, the new government expressed its commitment to implementing the reform agenda as enshrined in the EU-Moldova Association Agreement.

On the economic and financial side, Moldova has continued making progress on implementing reforms in line with the AA/DCFTA. However, challenges in the domain of the rule of law continue to affect the overall business and investment climate.

The EU continues to consolidate its position as Moldova's main trading partner, accounting for around 70% of total exports and 50% of total imports in 2018. The agricultural sector has benefited the most from the DCFTA since its entry into force, recording 44% growth in exports.

EU assistance has helped to achieve tangible improvements in people's daily lives. Several projects were completed, contributing to energy efficiency (biomass project), improved road

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<sup>1</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/pdf/key-documents/151118\\_joint-communication\\_review-of-the-enp\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/pdf/key-documents/151118_joint-communication_review-of-the-enp_en.pdf)

<sup>2</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.215.01.0003.01.ENG](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.215.01.0003.01.ENG)

infrastructure (building a bypass around the city of Ungheni), supported customs and border operations (the Palanca jointly operated border crossing point) and youth and educational exchanges (Erasmus+).

On connectivity, energy efficiency, climate action, environment and civil protection, Moldova overall has recorded limited progress on implementing reforms in line with the AA/DCFTA. Education reform is ongoing, though a decisive improvement in higher education is still pending.

Some progress was made during the reporting period on the implementation of the measures agreed during the Austrian and Italian Chairmanships of the OSCE relating to the Transnistrian conflict.

Moldova contributes to the implementation of the revised ENP and its regional dimension, the Eastern Partnership (EaP). The ‘20 Deliverables for 2020<sup>3</sup>’ remains a key guidance document identifying concrete tangible results to be delivered for citizens.

## *2. Political dialogue, good governance and strengthening institutions*

### *2.1. Democracy, human rights and good governance*

The invalidation of the June 2018 **by-elections for Chişinău mayor**, won by opposition candidate Andrei Năstase, was regarded as non-transparent by the EU and other international actors. Several observers noted a deterioration in democratic standards and the rule of law in the course of 2018. Those concerns were reflected in the joint statement of the High Representative of the Union for Foreign Affairs and Security Policy / Vice-President of the Commission (HR/VP) Mogherini and Commissioner Hahn of 27 June 2018<sup>4</sup> and in the European Parliament Resolutions of 5 July 2018<sup>5</sup> and 14 November 2018<sup>6</sup>.

Similarly, little progress was made in 2018 on fulfilling recommendations made by the Constitutional Court, to address a number of legal loopholes in the **electoral system** following the 2016 presidential elections. Nor was there much progress in addressing the joint opinions of the Council of Europe Venice Commission and the Organisation for Security and Co-operation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) of 19 March 2017 on changing the electoral system<sup>7</sup> and of 11 December 2017 on funding of political parties and campaigns<sup>8</sup>. Legal changes on the financing of political parties, including ceilings for cash donations from private persons, entered into force in January 2019.

In this context, despite concerns expressed by the EU and in the above-mentioned recommendations and opinions, the 24 February 2019 **parliamentary elections** took place using a mixed proportional-uninominal electoral system, following the change in the electoral

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<sup>3</sup> <https://www.consilium.europa.eu/en/meetings/international-summit/2017/11/24/>

<sup>4</sup> [https://eeas.europa.eu/headquarters/headquarters-homepage/47472/statement-hrvp-mogherini-and-commissioner-hahn-invalidation-mayoral-elections-chisinau\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/47472/statement-hrvp-mogherini-and-commissioner-hahn-invalidation-mayoral-elections-chisinau_en)

<sup>5</sup> <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2018-0303>

<sup>6</sup> <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2018-0458&format=XML&language=EN>

<sup>7</sup> [https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD\(2018\)008-e](https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2018)008-e)

<sup>8</sup> [https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD\(2017\)027-e](https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2017)027-e)

system in 2017. According to the final report of the OSCE/ODIHR of 22 May 2019<sup>9</sup>, the elections were competitive and fundamental rights were generally respected. Shortcomings were observed, including non-transparent campaign financing mechanisms, biased media coverage, misuse of state resources, large-scale bussing of voters from Transnistria and allegations of vote buying. ODIHR recommended considering a comprehensive review of the electoral legal framework to eliminate inconsistencies and ambiguities, and to address ODIHR and Council of Europe recommendations. All lists of political parties complied with the 40% gender quota requirement. However, only 49 out of 264 women registered on national lists were in top ten positions on the list. Further work on ensuring the balance of both genders in winnable positions on the lists was recommended by ODIHR.

The elections were followed by a three-month period of inconclusive consultations to **form a government**. These ended on 8 June 2019 with the Parliament's vote in favour of a new government. This was based on the parliamentary majority formed by the Socialist Party of the Republic of Moldova and the 'ACUM' political block composed of the Dignity and Truth Platform Party and the Party of Action and Solidarity. This triggered a period of political instability and uncertainty, which ended peacefully with the transition of power on 14 June, following the stepping aside of the Democratic Party care taker government and the Constitutional Court's annulment of its decisions of early June on the legality of the new administration and on the dissolution of the Parliament. HR/VP Mogherini and Commissioner Hahn issued a statement on 9 June 2019<sup>10</sup> supporting the democratically legitimate government and calling for calm and restraint.

On 24 June 2019, the new government published its programme outlining its priorities. The Parliament has started working on a **new legislative agenda**. Some of its first decisions included cancelling the previous mixed electoral system, advancing the banking fraud investigation and adopting decisions to help depoliticise state institutions and fight corruption. The implementation phase is yet to be monitored and assessed.

The bill cancelling the mixed electoral system and returning to the **proportional system** based on party lists was approved at first reading, in June 2019. It includes changes to improve voting conditions for the Moldovan diaspora, to restrict donations and to aim for greater transparency in the funding of political parties and election campaigns.

On several occasions in 2018, the parliamentary transparency procedures were not respected or lacked predictability. This was notably the case for controversial legal initiatives such as the fiscal reform package. New rules of procedure for the Parliament have not been adopted following negative reactions from various stakeholders to the haste with which the process had been carried out and to certain provisions on transparency and relations with other public institutions.

The **media landscape** remains characterised by concentration of media ownership and monopolisation of the advertising market, without substantial investigations of the cartel allegations. Two television channels suspended broadcasting during the summer of 2018, reportedly due to limited access to the advertising market. Local civil society organisations (CSOs) reported increased use of manipulation and propaganda techniques, especially by media affiliated with political and economic circles, and a higher number of cases of

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<sup>9</sup> <https://www.osce.org/odihr/elections/moldova/420452?download=true>

<sup>10</sup> [https://eeas.europa.eu/headquarters/headquarters-homepage/63826/statement-high-representativevice-president-federica-mogherini-and-commissioner-johannes-hahn\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/63826/statement-high-representativevice-president-federica-mogherini-and-commissioner-johannes-hahn_en)

incitement to hate and violence<sup>11</sup>. Moldova's ranking in the Reporters without Borders World Press Freedom Index<sup>12</sup> fell by one position in 2018 and by a further 10 positions in 2019 to the 91st place out of 180 countries. Smaller and independent media outlets still find it difficult to comply with the local content requirements. The Parliament adopted the Media Development Strategy in June 2018 and the Law stimulating foreign investments in film and television production in July 2018. The new Audiovisual Media Service Code aimed at transposing the EU Audiovisual Media Services Directive entered into force in January 2019. To make progress on media de-monopolisation, the new government announced in June 2019 several immediate measures, including a review of the Audiovisual Code and liberalising the advertising market.

**Public administration reform** efforts continued, with a focus on the reorganisation of governmental subordinated institutions, public agencies and state-owned enterprises (SOEs). A new Law on government procedure was adopted in July 2018 and its implementation started, *inter alia*, through regular meetings of the Secretaries General. A new Law on administrative procedure was also adopted and came into force in April 2019. The timeline for the expected territorial reform remains uncertain. Some progress has been achieved in terms of dialogue between the government and local authorities, especially via the Congress of Local Authorities. A Law aimed at unifying the salary system, bringing more equity and transparency in public pay, entered into force in December 2018. However, replacements of key positions in public administration in the pre-electoral period raised concerns over its independence.

**Public financial management (PFM) reform** continued, with further improvements of the medium-term and annual budget planning. Positive progress against 2018 annual targets of the PFM Reform Strategy was observed with sustained good performance for each of the reform components, including progress related to the comprehensiveness of the budgetary documentation, improvements in sectoral consultations of the medium term budgetary framework, methodology to improve revenue forecasting, revenue performance (both for tax and customs), positive steps in reforming public procurement (mainly on the legal side) and improvements of the quality of monthly and annual reports. The 2019 budget was consistent with the agreed deficit target with the IMF, was adopted and published on time. However, it appeared clear in mid July 2019 that this budget had underestimated the impact of the reform of public sector wages that had been introduced in the last quarter of 2018. An amended budget was therefore prepared and approved by the new authorities following discussions with the IMF. Overall, PFM reforms are moving in the right direction and the implementation of PFM reforms remains satisfactory. Transparency also increased thanks to the introduction of stricter requirements on accounting, reporting and external audit in large SOEs and joint stock companies. Measures were also carried out to transform SOEs with administrative functions into public agencies and to privatise others. Despite this, transparent and efficient oversight responsibilities and an effective ownership policy are yet to be implemented.

For most of the period covered by this report, Moldova failed to deliver on **justice, human rights and fundamental freedoms**. Prosecutions and arrests of political and CSO representatives continued in 2018 and the beginning of 2019. Selective and non-transparent justice also affected business operators and investors. Widespread use of pre-trial detention, prosecution of defence lawyers and non-transparent judicial process also persisted. In October

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<sup>11</sup> [Confirmed also by a Report of the Council of Europe anti-racism commission on Moldova published in October 2018, <https://go.coe.int/QzexJ>](https://www.coe.int/t/CD/anti-racism/anti-racism-commission-on-moldova/2018-10-10-report-on-moldova.aspx)

<sup>12</sup> <https://rsf.org/en/ranking>

2018, the Supreme Council of Magistracy supported a proposal of the Disciplinary Board on the controversial dismissal of a judge involved in a land dispute with local authorities. There was lack of progress in legal cases with public resonance, such as the death in state custody of a detainee who suffered from mental disorders and the dismissal of a judge on the basis of an opinion from the intelligence services. There are cases of people who are seriously ill being kept in pre-trial arrest, while medical services in penitentiaries are inadequate. Documented cases of this problem have been acknowledged by the Council for Preventing and Eliminating Discrimination and Ensuring Equality. The new Law on the National Administration of Penitentiaries entered into force in May 2018, aiming to demilitarise the system, decentralise decision-making processes and increase the level of professionalism of employees. However, local stakeholders' institutional capacities to implement strategies remain weak, and conditions in detention centres are below international minimum standards. Following the instalment of the new government, a series of resignations ensued in the judicial and law enforcement sectors. All Constitutional Court judges resigned after an unprecedentedly critical Venice Commission opinion<sup>13</sup> on the rulings of the Court during the recent political crisis. The Superior Council of Magistracy suspended several judges from senior functions and the Parliament changed the leadership of the Security and Intelligence Service, while the Chief Prosecutor for combating organised crime resigned in July 2019.

The new 2018-2022 Human Rights Action Plan was adopted by the Parliament in May 2018. However, its implementation is delayed and secondary legislation still needs to be approved. In the meantime, occurrences of hate speech against Roma, LGBTI (lesbian, gay, bisexual, transgender and intersex) people and immigrants in public discourse have increased<sup>14</sup>. The Parliament did not adopt legislative amendments to increase the capacities of the Council for Preventing and Eliminating Discrimination and Ensuring Equality. In response to a case in which a politician made threats to journalists and opposition figures, the Ombudsman called upon the Parliament to adopt the laws on hate crime voted at first reading in 2016 and repeatedly asked the Prosecutor's Office to investigate the case, but to no effect.

The ratification of the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence, which was signed in February 2017, is still pending. The first ever Strategy to Prevent and Fight Violence Against Women and Girls, covering the period 2018-2022, entered into force in April 2018. The Strategy's aims include improving multi-disciplinary approaches (piloted currently in five districts). In 2018, the first implementation report of the 2017-2021 National Gender Equality Strategy was published, showing some progress on institutional and human capacity building at governmental level. However, there is a lack of appropriate funding and implementation mechanisms are weak.

In May 2018, the government approved the 2018-2019 Action Plan for the National Council for the Protection of Children's Rights. Challenges such as detention conditions, protection of vulnerable children (especially in rural areas), promotion of inclusive education, de-institutionalisation and protection of children with disabilities are yet to be addressed. In October 2018, the government approved material support for newborn children and a daily allowance for children assisted by alternative care services.

A Strategy for **Civil Society** Development covering the years 2018 to 2020 was adopted by the Parliament in March 2018. While the institutional implementation mechanism is still not

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<sup>13</sup> [https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD\(2019\)012-e](https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2019)012-e)

<sup>14</sup> Reported by the Council of Europe in Fifth report on the Republic of Moldova (adopted on 20 June 2018 / published on 2 October 2018). Available at: <https://www.coe.int/en/web/european-commission-against-racism-and-intolerance/republic-of-moldova>

fully set up, the governmental regulation is under preparation. In May 2018, the government published a review of its 2017 report on transparency of decision-making<sup>15</sup>, which shows that the number of consulted draft decisions decreased from around 89% in 2014 to 72% for draft laws and 80% for governmental decisions in 2017. Independent CSOs working on election monitoring reported that they were intimidated by ruling political parties.

A new draft law on non-governmental organisations, under discussion since 2016, was not approved by the previous Parliament during its mandate. The second year of application of the '2% Law' (which allows citizens to direct 2% of their income tax to CSOs) saw a 30% increase in contributions from the population on the previous year and a doubling of validated fund transfers, also indicating improved methods of implementation<sup>16</sup>. On social entrepreneurship, which is an area with high development potential, secondary legislation for the 2017 legal framework is still under development, including on the establishment of a Social Entrepreneurship Commission.

## ***2.2. Foreign and security policy***

Moldova continued cooperating with the EU on international issues. In 2018, Moldova aligned itself with 46 out of 68 EU declarations and Council decisions that it was invited to support (68%), compared to 34 out of 49 (69%) in the previous year. Moldova's participation in EU **Common Security and Defence Policy** missions and operations continued, with two people taking part in the EU Training Mission to Mali. Implementation arrangements are under preparation for the EU-Moldova Agreement on security procedures for exchanging and protecting classified information, which entered into force in January 2018.

The National Programme and Action Plan on the implementation of United Nations Security Council Resolution 1325 and related resolutions on Women in Peace and Security were approved by the government in March 2018. The Deputy Prime Minister for Reintegration is chairing the working group responsible for its implementation.

There is no new **National Security Strategy**, although the Defence Strategy and its 2018-2022 Action Plan were approved by the Parliament in July 2018. The 2018-2022 Military Strategy and Action Plan, the first documents of this nature since independence, were approved by the government in October 2018. Their aims include supporting Moldova's cooperation with NATO under the Defence and Related Security Capacity Building Initiative.

Under the 2018 Italian OSCE Chairmanship, the Protocol on the mechanism for the participation of vehicles from the **Transnistrian region** in international road traffic was signed and put into operation by Chişinău and Tiraspol. Significant progress was noted in implementing the 2017 agreements on apostillation of Transnistria-issued diplomas, on access to farmlands in the Dubăsari area, and on the functioning of Latin script schools. In May 2018, a round of '5+2' talks took place in Rome. Discussions on implementing the agreement on organising interaction in the field of telecommunications are ongoing.

With support of the European Union's Border Assistance Mission to Moldova and Ukraine (EUBAM), the next phase of joint Ukraine-Moldova **customs control** at the Kuchurhan border crossing point was launched in April 2018. Moldovan authorities have started to apply customs clearing procedures for Transnistrian economic operators registered in Chişinău.

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<sup>15</sup> [https://cancelaria.gov.md/sites/default/files/document/attachments/raport\\_td\\_28\\_05\\_2018\\_.pdf](https://cancelaria.gov.md/sites/default/files/document/attachments/raport_td_28_05_2018_.pdf)

<sup>16</sup> <http://www.fisc.md/article.aspx?id=9077>

Moldova's National Strategy and Action Plan on **Weapons of Mass Destruction** and chemical, biological, radiological and nuclear for the period 2018-2025 have not been adopted yet. The National Information Security Strategy and Action Plan 2019-2024 was adopted in November 2018, including provisions on cybersecurity and on establishing a national cyber emergency response team.

### *2.3 Justice, freedom and security*

The 2018-2024 Justice Sector Reform Strategy was published and put to public consultation on 15 April 2019. Moldova was ranked 132th out of 140 countries in the Global Competitiveness Report 2018 of the World Economic Forum as regards the independence of the judicial system from government influence. According to the 2019 Rule of Law Index of the World Justice Project<sup>17</sup>, the country ranks 97th (out of 126) on criminal justice and 87th on civil justice.

There are many issues related to the **functioning of the judiciary**, which have given rise to very serious concerns. Significant events in this field included: the invalidation of the Chişinău mayoral elections in June 2018; the non-transparent selection and appointment of judges to courts of all instances; the lack of investigation and prosecutorial involvement in the detention of seven Turkish citizens and their expulsion to Turkey; and the lack of tangible results on the asset recovery, prosecution and convictions of the perpetrators of the 2014 banking fraud case, particularly the multiple postponements of the Shor appeal case, which allowed him to actively participate in political life and the electoral campaign. In early June 2019 the Parliament set up a new commission to investigate all circumstances of the 2014 banking fraud. The commission published a request for criminal investigation's initiation against some former high level officials in August 2019. The second Kroll report was published by the Parliament in July 2019.

The Constitutional Court decisions taken between 7 and 9 June 2019 that led to the period of political instability raised international concerns. In his statement, the Secretary General of the Council of Europe<sup>18</sup> requested an urgent opinion from the Venice Commission on the Constitutional Court's rulings. Following the Venice Commission's opinion of 24 June 2019 stating that the Court's decisions were groundless and politically biased, the Constitutional Court's judges resigned, allowing the appointment of new judges.

Further points of concern are: a prevalent mentality of excessive hierarchy and a culture of obedience and deference to the Supreme Council of Magistracy and the Supreme Court; the risk that judges be subjected to criminal investigation for 'unlawful judicial acts'; non-transparent decisions by the Superior Council of Magistracy on the selection, appointment, career, evaluation, dismissal and investigation of judges; a five-year initial appointment period for judges, affecting judicial independence and impartiality; the lack of a comprehensive Justice Sector Reform Strategy since 2017; and the excessive use of closed hearing procedures in high-profile cases of public interest.

In July 2018, the Parliament adopted amendments improving disciplinary procedures for **judges**, including the strengthening of the judicial inspector's role. The amendments entered into force in September 2018. In October 2018, amendments to the Law on judicial organisation and the Law on the status of judges were published, improving the selection

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<sup>17</sup> <https://worldjusticeproject.org/>

<sup>18</sup> <https://www.coe.int/en/web/portal/-/statement-by-the-spokesperson-of-the-secretary-general-on-the-situation-in-moldova>

criteria for judges and providing for periodic selection and promotion of judges based on merit and increased transparency. Judges will not be able to seek promotion when they are Members of the Superior Council of Magistracy. These changes are important for the transparency of the Superior Council of Magistracy and are a step towards increased functional autonomy for judicial inspection in Moldova. However, implementation of these amendments is lagging behind. The reorganisation of the **courts** (the ‘new judicial map’) is to be achieved by 2027. A new integrated case management system and the Prosecution Service’s information system (Prosecution ‘e-Case’) is being tested. There has been an overall increase in the backlog of court cases, caused in part by delays in the staff selection process in the Prosecutor General’s Office as well as in the specialised Anticorruption Prosecutor’s Office and the Organised Crime and Special Cases Prosecution Office. In June 2019, the new Parliament approved at first reading amendments to the Law on the **Prosecutor General** and discussions on reforming this service continue. At the same time, the selection process of the new Prosecutor General is ongoing.

A number of actions took place in the area of the **prevention and fight against corruption, fraud and conflict of interest**. These focused on strengthening institutional integrity and preventing, detecting and deterring corrupt behaviour among civil servants. The Law on Whistle-Blowers, which establishes a mechanism for reporting integrity incidents, irregularities and abuses, and which provides protection for whistle-blowers, was adopted in July 2018 and entered into force in November 2018. The monitoring mechanism under the 2017-2020 National Integrity and Anticorruption Strategy 2017-2020 was made operational through three monitoring groups, consisting of key institutions and CSOs active in the anticorruption sector. The 2017-2020 progress implementation report for the Strategy showed slow progress for 2017. Out of 98 actions, 27 were fully implemented, 64 were partly achieved or ongoing, and 7 had not been achieved, while 8 out of 9 sectoral anticorruption plans were approved by the government. Public consultations were concluded on the remaining two plans (on the environment and agri-food) and their approval is pending. The draft law on increasing financial penalties in corruption cases has been under discussion in the Parliament since June 2016.

Secondary legislation for the Law on **preventing and combating money laundering and terrorism financing** was developed and approved in September 2018. However, the Liaison Officers Network under the Financial Intelligence Unit (FIU), and the inter-agency anti-money laundering (AML) coordination body — the Risks Analysis Centre, have not yet been established. The draft law on the procedure for identifying violations in the area of money laundering and terrorism financing and for the imposition of fines is still under consideration. Selective implementation of this legislation and selective use of existing tools remain concerns. Moldova can now join the EU Member States’ network of FIUs, following approval by Europol’s Management Board in October 2018. To do so, the Moldovan authorities need to send Europol a formal request to add Moldova’s FIU to the Operational Agreement with Europol as a competent authority.

In October 2018, the Council of Europe’s Moneyval<sup>19</sup> Committee of Experts conducted an assessment of the technical compliance and effectiveness of state and private sectors in implementing international AML and counter-terrorism financing standards. The assessment was completed in July 2019. The adoption of capital amnesty legislation in July 2018 as part of the fiscal reform package was done without public discussion and assessment by responsible international AML institutions, and despite international partners’ negative

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<sup>19</sup> Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

reactions to similar initiatives in the past. The Capital Amnesty Programme was completed in March 2019, without providing transparent and detailed public information on its results.

The **Citizenship-by-Investment** Programme, granting Moldovan citizenship in exchange for investment, was launched in November 2018. The Law on the Programme was adopted in 2016 and amended in May 2018. The Programme raised questions with regard to security and its compliance with the AML measures; these issues were raised during the November 2018 EU-Moldova Association Committee. In June 2019, the new Parliament adopted at first reading a new draft law suspending the Programme for four months.

On the **national assets recovery** system, there is a need for an effective inter-agency cooperation mechanism between all state institutions involved in the prevention, investigation and prosecution of serious crimes, and for a system to manage seized criminal assets. In June 2018, a Strategy was approved on the recovery of the stolen assets from three commercial banks affected by the 2014 banking fraud. The Strategy includes a description of the fraud, the investigation and recovery measures, the institutions responsible for the recovery process, as well as general provisions on international cooperation and legal assistance. However, publically available information on the results of the investigations into the fraud is lacking, including data about final court decisions, convicted persons, confiscated assets and assets repatriated from foreign countries. Very limited information on the Strategy's results is included in the 2018 Prosecutor's General Office annual activity report and a report on the first year of the Strategy's implementation is yet to be published.

An e-declaration system was established by the **National Integrity Authority** and became mandatory in January 2018, together with a mechanism for filing civil servants' assets and conflict of interest statements. In the Authority's new organisational structure, the Agency had a staff of 76, of which 46 are integrity inspectors, though by the end of June 2019 only 9 inspectors had been selected as a result of 3 public competitions. In addition to the challenges in recruiting integrity inspectors (the salary for future integrity inspectors has been drastically reduced under the new Law on the unitary salary system), the Authority has largely refused, in contradiction to the law, to work with CSOs and journalists who brought to its attention substantiated cases of corruption. Contrary to the legal requirements, the Authority has not published the conclusions of their verifications. As regards the screening of candidates in elections, the Authority is entitled to issue integrity certificates valid for 3 months from the date of issue. Further concerns about the Authority's independence stem from its selective delivery of certificates of integrity to individuals convicted of jail sentences. In August 2019 the government formed the Coordinating Council and Consultative Bureau for anti-corruption and justice reform under the direct supervision of the Prime Minister.

In March 2018, the government adopted its 2018-2023 Strategy to Fight and Prevent **Trafficking in Human Beings**, together with an Action Plan covering 2018-2020. The Permanent Secretariat of the National Committee on Combating Trafficking in Human Beings under the State Chancellery was given a central role in leading the implementation of both the Strategy and the Action Plan. In September 2018, the Permanent Secretariat of the National Committee on Combating Trafficking in Human Beings was merged with other permanent secretariats under the State Chancellery, which led to a significant reduction of its staffing.

In November 2018, the government approved the National Strategy for **Integrated Border Management** (IBM) for 2018-2023, the main policy document that reflects the state's vision for IBM. The EUBAM is continuing its work and also contributed to the Border Management Strategy, promoting the IBM European concept, and will support its implementation within its mandate. In December 2018, the Palanca border crossing point operated jointly by customs and border guards from Moldova and Ukraine was put into operation for passenger traffic

following EU investment. In February 2019, the border crossing point was also opened for cargo traffic.

On **cybercrime and cyber security**, the competent law enforcement authorities have proven to be a valuable partner for Europol in investigations into cyber criminality. However, cooperation between the public sector and private sector – as provided for in the 2001 Budapest Convention on Cybercrime – needs to be developed and a national governmental CERT (computer emergency response team) established. During the reporting period, a National Information Security Strategy for 2019-2024 and an implementation plan, which includes establishing a national CERT, were debated in the Parliament.

The General **Police** Inspectorate continues to implement its 2016-2020 Police Development Strategy, supported by the EU. Significant steps forward were taken, such as the publication in 2018 of the first ever police career guide and the creation of anti-corruption and AML units within the service. Significant progress was also made in the nationwide rollout of the concept of community policing. The police continue to maintain productive working relationships with CSOs, and cooperation agreements are in place with a number of them. However, CSOs have expressed criticism of the police's handling of mass demonstrations in summer 2018 and early 2019 and raised the question of whether there is targeted political influence in the functioning of the police. The spectre of political influence over the police came to the fore in June 2019 when the (now former) Head of the General Police Inspectorate refused to take orders from the newly installed government. Staff turnover continued to be high, affecting the sustainability of reforms.

The National Centre for Personal **Data Protection** (NCPDP) made significant progress on developing a legislative framework for the protection of personal data. Two draft laws, one on personal data protection, aiming at incorporating requirements from the EU's General Data Protection Regulation<sup>20</sup>, and one on the NCPDP were adopted by the Parliament at first reading in November 2018. Over the past year, the NCPDP has received additional staff and training under an EU-funded twinning project.

### ***3. Economic development and market opportunities***

#### ***3.1 Economic development***

In 2018, the gross domestic product (GDP) increased by 4.0% in real terms, slightly down on the 4.7% expansion recorded in 2017. **Growth** was driven by a surge in investments (up by 14.0% year on year) – following a sharp increase in public investment, but also a resurgence in lending – and to a lesser extent a rise in household consumption (3.2%), the latter supported by growing remittances and real wages. Growth for the first quarter of 2019 was 4.4% and still investment-driven. Surprisingly, consumption growth was lagging behind, despite a large increase in wages. Lower remittances and higher inflation are likely to moderate growth, which is projected to decelerate to 3.4% in 2019.

**Inflation** slowed down sharply in 2018 to finish the year at 0.9%, well below the target corridor of 5% +/- 1.5 percentage points. Disinflation was primarily due to base effects, currency stability and cuts to some administrative prices such as electricity. After strong appreciation in recent years, the local currency held broadly steady in much of 2018 at around MDL<sup>21</sup> 19.50 per €. The National Bank of Moldova has kept the base interest rate at 6.5%

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<sup>20</sup> EU Regulation 2016/679.

<sup>21</sup> Moldovan leu

from 2017 to this year despite strong disinflation in 2018, as credit activity picked up in 2018, in particular during the second half of the year.

Inflation has picked up in 2019 (at 4.6% year on year in May), following some depreciation of MDL (to around MDL 20.50 per €) and large increases in public sector wages. As a response, the National Bank of Moldova raised the base interest rate from 6.5% to 7.0% in June 2019. Inflation is expected to reach, and peak, at 8.0% in the fourth quarter 2019<sup>22</sup>.

The estimated budget deficit of 0.9% of GDP in 2018 was significantly smaller than the 2.9% target following better-than-expected revenue performance and delays in spending. Revenues in 2018 increased by 8.6% compared to 2017 on the back of solid growth and tax administration reforms. Under-execution of spending is linked to delays in implementing larger investment projects with external financing.

The **fiscal situation** has deteriorated significantly in 2019 following cuts to personal income tax rates and the increase in public sector wages and social packages. Specifically, a fiscal reform package was adopted in July 2018 and entered into force in October 2018. It includes the introduction of a single flat rate income tax of 12% (the earlier progressive system had two different rates, at 7% and 18%), a doubling of the threshold for deduction of personal income tax to MDL 24,000 (around €1,200) and a reduction of social contributions from 23% to 18% of wages. Tax incentives were introduced for some sectors in the service industry (hotels, restaurants and taxis). In addition, a capital amnesty was announced for previously undeclared assets initially involving a payment of 3% of the newly-declared value, a cancellation of fines if past unpaid taxes are being paid (tax amnesty), and a downgrading of penalties and decriminalisation of some financial-economic crimes. Following IMF demands, the tax reform was amended in November 2018, including increasing to 6% the percentage of the newly-declared value to be paid in the capital amnesty. Further measures have been taken, as part of an understanding reached between the Moldovan government and IMF staff in July 2019 on the combined fourth and fifth programme review.

Important fiscal measures were adopted and promulgated in summer 2019 including a broadening of the tax base for capital gains, a removal of the personal exemption of the income tax for high incomes and an increase in the value-added tax for hotels and restaurants.

Robust growth and improved fiscal performance in 2017 and 2018 helped improve Moldova's debt metrics. Public debt decreased to 30.9% of GDP at the end of 2018 from 32.7% at the end of 2017. External public debt is 57% of the total and amounted to EUR 1.46 billion. About 80% of the central government debt is long-term, mostly with International Financial Institutions and the rest with bilateral creditors. Short-term debt is mostly internal.

The 12-month rolling **current account deficit** widened significantly in the first quarter of 2019 to 10.6% of GDP compared to 7.0% of GDP one year earlier. The deterioration reflects rapid growth in non-energy imports fuelled by the appreciation of the currency in recent years, which outpaced strong growth in exports.

**Remittances** increased by 12% year on year in 2018. Most of the increase comes from EU countries. Net foreign direct investment, which has only been recovering slowly since the banking crisis in 2014-2015, reached 1.7% of GDP in 2018, but is still significantly lower than before the crisis.

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<sup>22</sup> <http://bnm.md/en/content/inflation-report-no3-august-2019>.

The **reserves level** is still well above the target stipulated in the IMF programme, even though the central bank continued to build up international reserves in the course of 2018 to EUR 2.63 billion at year-end or about 5 months of imports of goods and services. However, in the first months of 2019, international reserves fell back to EUR 2.46 billion, following central bank's interventions to keep the currency stable in the pre- and post-election period.

Total **external debt** has continued to decrease, reaching 64.6% of GDP at the end of 2018, down from 67.5% of GDP at the end of 2017.

On **taxation**, efforts continued on legal approximation with EU legislation. New rules were adopted on value added tax and excise duty, and the tax administration was reformed. The efforts have resulted in sustained growth in tax revenues. The country is in the process of joining the Organisation for Economic Co-operation and Development Global Forum for the exchange of information with foreign tax administrations.

The situation in the **banking sector** appeared stable during 2018. The European Bank for Reconstruction and Development (EBRD) and other European banking groups obtained control over more than 70% of the banking sector, compared to less than 20% in 2016<sup>23</sup>. There are high liquidity reserves at the commercial banks which are expected to increase their lending activities. There has been no tangible progress in the investigation of the massive banking fraud that was exposed in 2014 and there was no substantial recovery of assets, although the Asset Recovery Strategy was presented in June 2018 by the country's law enforcement agencies. Most amounts collected during the recovery process came from the sale of remaining assets of the three banks.

The implementation of the Law on **statistics** continued, with the government's approval of the Regulation on the activity of the National Council for Statistics in March 2018.

Overall legislation aimed at achieving transparency in line with best practices on the **privatisation** of SOEs is still to be strengthened. Steps were taken to improve the legal framework on **concessions and public-private partnerships**, with a law aimed at achieving approximation with EU legislation adopted in July 2018. However, transparent and efficient oversight and the implementation of an effective state ownership policy are lacking. The Air Moldova privatisation and the construction of the Chişinău Arena raised concerns among various stakeholders about whether legal proceedings were being carried out in line with the legislation and best practices.

Corruption, lack of trust in the judiciary and incoherent policies affected the overall **business environment and investment climate**. In 2018, Moldova fell three positions in the World Bank Doing Business Report<sup>24</sup>, ranking 47th out of 190 countries. The reform of inspections and controls, whose end result should be a single functioning system ('one-stop shop') has not been finalised.

Moldova also lacks a proper **industrial and enterprise policy**. An industrialisation strategy for 2019-2030 is currently under development.

On **agriculture and rural development**, some steps were taken to follow up on the mid-term review of the 2014-2020 National Strategy for Agriculture and Rural Development, which was completed in February 2018, with the support of the European Neighbourhood Programme for Agriculture and Rural Development. Measures to improve living and working

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<sup>23</sup> Source: National Bank of Moldova

<sup>24</sup> <https://www.doingbusiness.org/en/doingbusiness>

conditions in rural areas were included in the Strategy's Action Plan. The government approved subsidies for individuals, based on pre-investment principles and advance payments. The subsidies' main objectives are to encourage creation of small businesses run by young and female farmers, to improve their economic performance, create new jobs and increase investments in innovative technologies. Some amendments to the Law on the principles of subsidising agricultural producers were adopted in November 2018 to reflect the policy update in line with the Strategy. These provide for the introduction of rural development support measures to improve living conditions and the sustainable use of land and water resources.

In line with the 2016-2020 National Strategy for **Regional Development**, selected projects were proposed through the National Fund for Regional Development (NFRD). The National Coordination Council for Regional Development has met regularly to oversee the spending of NFRD funds. A potential issue on regional development remains the reduced focus on specific regional development policy. This is because agricultural and environmental commitments stemming from the AA/DCFTA require more efforts and resources. Legal approximation in line with the AA/DCFTA is in progress, but with substantial delays on organic farming. Support to local development strategies was designed and initiated under the 'Mayors for Economic Growth' initiative (involving the Cimişlia and Edineţ districts and the Gagauzia autonomous region) as well as through the selection of focal regions for EU action in future programmes.

Moldova was part of a 2-year pilot project on 'Smart specialisation and organisational development in enlargement and Horizon 2020 associated countries', launched by the European Commission in 2016. The project included institutional capacity building and guidance on the development of national and regional smart specialisation strategies. In 2019 work on a pilot strategy for smart specialisation was launched with a view to defining the investment priorities for regional policy.

Moldova is playing an active role as a full partner in the EU macro-regional strategy for the Danube Region, in which it serves as co-coordinator of the priority area on 'People and Skills'. The Ministry of Agriculture, Regional Development and the Environment has appointed a national coordinator for the strategy. However, due to a lack of financial resources, Moldova's participation in the strategy is limited. The Ministry is also preparing an urban revitalisation plan, which should be the basis for the future policy aiming to support bigger cities and create urban-rural linkages. The national 'Start for Youth: Sustainable Business at Home' Programme began to be implemented in February 2019.

The new Law on **employment** promotion and unemployment insurance entered into force in early 2019. It includes new employment services for employers and jobseekers as well as new active labour market policy measures. The new law also transfers the payment of unemployment contributions to the National Social Insurance Office. The National Employment Agency will need to make every effort to strengthen its staff capacity to provide employment services and implement the new active labour market measures.

The unemployment rate dropped to 3% in 2018. Youth unemployment among 15-24 year olds and 15-29 year olds followed this positive trend, dropping to 7.4% in 2018 from 11.8% in 2017<sup>25</sup>. The rate of those neither in employment, nor in education or training (15-29 years) remains high at 27.1%. In contrast, the activity rate increased to 43.3% in 2018 from 42.2% in

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<sup>25</sup> Source: National Bureau of Statistics

[http://statistica.gov.md/public/files/publicatii\\_electronice/Moldova\\_in\\_cifre/2019/Breviar\\_en\\_2019.pdf](http://statistica.gov.md/public/files/publicatii_electronice/Moldova_in_cifre/2019/Breviar_en_2019.pdf).

2017. Employment rate also grew to 42.0% in 2018, in comparison with 40.5% in 2017<sup>26</sup>. In 2018, the agricultural sector accounted for 36.1% of employed people. Over the last 4 years, this share has slightly increased, especially due to the services sector accounting for a smaller share of the employed population. One third of the working population remains employed in the informal economy (34.7%). The 2019 Annual Action Plan for Employment was approved in February 2019.

According to the Moldovan authorities, 28 out of 39 relevant EU Directives<sup>27</sup> in the employment field have been transposed into the national legislation: 7 out of the 8 Directives on labour relations, 12 out of 25 on occupational safety and health (OSH), and 5 out of 6 on non-discrimination and gender equality, including 4 which were only partially transposed.

The inspection system in the field of OSH remains dysfunctional and is still not compliant with International Labour Organisation standards. In this context, the government has returned the task of investigating accidents at work to the State Labour Inspectorate for one year. New amendments to the Law on state control over entrepreneurship were approved and published in August 2018, laying down new restrictions on inspections.

On **public health**, progress was made on implementing the Law on medical devices thanks to the approval of three government decisions in July 2018. Work was undertaken on the draft law on medicines, which has to be submitted to the government for approval. The 2019-2028 National Strategy on Antimicrobial Resistance has been prepared but has not yet been approved. The primary health care reform, which includes a new system of family doctor practices, was approved in July 2018. The 2018-2022 National Programme on Sexual and Reproductive Health and Rights was approved by the government in July 2018. This was followed in September 2018 by the adoption of the 2018-2020 Anticorruption Action Plan and a new IT-based system for the procurement of medicines and medical devices. A number of activities and joint actions were carried out under the 2014-2020 EU Health Programme.

### ***3.2 Trade and trade-related matters***

Moldova's **trade** continued to grow in 2018 and the EU consolidated its position as Moldova's main trading partner. In 2018, the total trade between the EU and Moldova grew by 14% compared to 2017, to slightly over €4.6 billion. Over the reporting period, EU exports to Moldova increased by 13%, from €2.44 billion to €2.76 billion, while EU imports from Moldova increased by 16%, from €1.61 billion to €1.88 billion (in 2018, the EU accounted for around 70% of Moldova's total exports and 50% of total imports). Exports of plums and table grapes exceeded the zero-duty tariff rate quotas (TRQ) agreed in the DCFTA. As regards the triggers in the anti-circumvention mechanism (ACM), in 2018 those levels were exceeded for wheat, maize and processed cereals (ethanol). Moldova requested in 2017 an increase of certain TRQs and trigger volumes under the ACM; an agreement at negotiators' level between the Commission and the Moldovan authorities was reached in July 2019 (pending formalisation). The agricultural sector has benefited the most from the DCFTA since its entry into force, with a 44% growth in exports. Industrial exports increased by 11% so far. In terms of EU imports from Moldova in 2018, the share of agricultural goods stood at 31% while non-agricultural goods represented 69% of imports. Agricultural goods constituted 10% of EU exports to Moldova, with 90% of EU exports being non-agricultural. However, the Parliament

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<sup>26</sup> <http://statistica.gov.md/newsview.php?l=ro&idc=168&id=6328>.

<sup>27</sup> Annex III to the EU-Moldova Association Agreement.

approved at first reading amendments to the Domestic Trade Law, which if adopted by the Parliament would breach Moldovan DCFTA and World Trade Organisation commitments.

The trade facilitation measures which allow to keep the EU market open to goods from Transnistria have been reviewed twice since January 2016; on this basis the EU-Moldova DCFTA's provisions have been applied on the entire territory of Moldova.

On **technical barriers to trade and market surveillance**, horizontal legislation was adopted. Work on approximation of sectoral legislation is in progress, although there are certain delays caused by the complexity of the legislation, lack of capacity and financial resources.

As regards **sanitary and phytosanitary standards**, the new organisational structure of the National Food Safety Agency was approved in June 2018 following the reform of central public administration. The new structure supported the launch of the optimisation process for laboratories and reflected the newly assumed responsibilities of the Agency on the production and circulation of wine and alcoholic beverages, consumer protection in the food sector, occupational safety, and compliance with licensing conditions in related fields. Activities aimed at increasing Moldova's capacities to export products of animal origin need to continue.

Legal approximation according to the AA/DCFTA is in progress, although with substantial delays on animal health. **Laboratory diagnostic** capacity for monitoring and surveillance of animal diseases as part of official controls remains weak.

On **customs** and trade facilitation, a draft roadmap for the future mutual recognition of the respective Authorised Economic Operator (AEO) Programmes was already shared in 2017, but no significant progress was made in the meantime. One pilot project with Romania is still in force, only foreseeing a unilateral recognition of Romanian AEO and not vice versa. The new Customs Code, transposing provisions of the Union Customs Code, was presented for government's approval twice in 2018 but has not been adopted yet. Overall, progress in the customs area was affected by certain amendments approved by the Parliament in July 2018. For instance, there are concerns about the new threshold for launching criminal investigations into smuggling and for allowing the sale of fuel in duty-free shops as they would create fiscal risks and raise risks of smuggling.

Efforts to strengthen **banking** governance and risk management, to remove unfit shareholders and to improve the financial shape of banks continued under the new Law on banking activity, which entered into force in January 2018. The deposit insurance scheme was strengthened by increasing the scope of deposit insurance and the level of coverage it can provide, and by raising fund financing. Moldova's macro-financial stability framework was enhanced through the adoption of a new law on the Financial Stability Committee.

Vulnerabilities remain in the **insurance sector**, while the rapidly growing volume of credit by non-bank credit institutions raises concerns. Moldova remains the smallest insurance market in Europe and is underdeveloped, stagnant, vulnerable and dependent on heavily motor third party liability. The viability of the insurance market is jeopardised by weak internal governance, low capitalisation, overvalued assets, under-estimated technical provisions, avoidance in the paying of claims, artificially lowered prices (below costs) of insurance policies and the creation of companies solely for reinsurance activities. A number of market participants complained that using the pretext to increase payments discipline, the legal amendments to the Insurance Law, which entered into force in December 2018, introduced changes restricting activities of the market brokers, putting further pressure to monopolise the market that could also affect financial stability of some insurance companies. The new Law on non-banking credit organisations, which entered into force in October 2018, goes some way towards strengthening governance, risk management and consumer protection. However,

certain provisions of the law, such as the right of non-bank institutions to take deposits from the public, need revision.

Moldova has made efforts to further strengthen its **competition** law by adopting a leniency programme in July 2018 and by specifying merger rules for the media sector in November 2018. Despite progress in legal approximation, Moldova is yet to ensure the factual independence of the Competition Council and remove obstacles to competition.

On enforcement of **intellectual property rights** legislation, there are still cases that confirm the low level of cooperation of stakeholders involved. The government has yet to delegate to a relevant state body the role of competent authority for the enforcement of and verification of compliance with geographical indications.

On **digital economy and society**, a number of strategies and programmes are being implemented. These include the National Strategy ‘Digital Moldova 2020’ and the Strategy for the Development of the Information Technology Industry and the Digital Innovation Ecosystem 2018-2023. A draft law on trusted electronic services is awaiting adoption. 25% of the EU legislation in the field of Informational Society has been approximated so far.

Amendments to the **Public Procurement** Law relating to electronic procurement and general updating in accordance with the 2014 Directive<sup>28</sup> were adopted in July 2018. The new Law on concessions intended to achieve approximation with the 2014 EU Directive was also adopted in July 2018. A reorganisation of central public procurement is expected to be pursued. However, standardisation of procurement procedures and professionalisation of public procurement officers remain pending issues. A new e-procurement system (M-tender) was put in place in October 2018, although the system still needs to be fully put into operation. After the establishment of a new Complaint Settlement Agency in 2017, the scope of the review and remedies system is largely in line with EU legislation<sup>29</sup>. In the pre-electoral period, the number of attempts to obtain exceptions from the general public procurement regime grew. The Agency’s independence and efficiency raised concerns following a bus acquisition tender carried out by Chişinău municipality.

In relation to the cooperation in the **fight against illegal, unreported and unregulated fishing**, the fishing activities of vessels registered in the State Ship Registry of Moldova requires adequate monitoring by the relevant competent authority, in line with the duties incumbent upon flag States under international law in order to effectively tackle such fishing.

On **trade and sustainable development**, delays in implementing the legislation on waste management, particularly on extended producer responsibility, could affect both the environment and business. As for the social dimension of trade and sustainable development, limits and deficiencies in the labour inspection system as well as issues with the judiciary system continue to bear negatively on the enforcement of labour standards.

#### ***4. Connectivity, energy efficiency, climate action, environment and civil protection***

Moldova became the first **Energy** Community contracting party to adopt a new law transposing the Energy Efficiency Directive<sup>30</sup>. In 2019, the Energy Efficiency Fund was merged into the Energy Efficiency Agency and the latter given the task of implementing

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<sup>28</sup> Directive 2014/24/EU

<sup>29</sup> Directive 2007/66/EC

<sup>30</sup> Directive 2012/27/EU

energy efficiency and renewable energy policies under the authority of the Ministry of Economy.

The reform of the Moldovan power sector to bring it into compliance with the EU's Third Energy Package (and Moldova's obligation as an Energy Community contracting party) is advancing. Ownership unbundling of Moldelectrica was achieved in August 2018 by separating its shareholding entity from that of the other state-owned energy companies.

The national energy regulatory agency continues to strengthen its functional and financial independence. However, the appointment of four board members raised some concerns at the Energy Community Secretariat<sup>31</sup>. The yearly electricity acquisition process has improved compared to previous years. However, there are still issues to be addressed, for example on corporate governance and the need for enhanced transparency at Energocom, the state-owned trader company, by ensuring full separation of activities on both the regulated and the unregulated market.

MoldovaTransGaz, the gas transmission system operator, is still to be separated in terms of ownership. The deadline is 2020, but secondary legislation is still pending. The construction of the strategic Ungheni-Chișinău gas pipeline, which after privatisation is now being implemented without EU funding, is progressing slowly. Transgaz, the new owner of the VestMoldTransgaz transmission system operator, committed to finalising the extension of the Iași-Ungheni gas interconnector both in Romania and in Moldova by 2019. However, current estimates indicate 2020 as a more realistic target. As for the construction of the electricity interconnection between Moldova and Romania, loan agreements were signed and ratified with the EBRD and the European Investment Bank and preparatory work has started. The EU is providing a grant of €40 million for this project. On the promotion of renewable energy sources, a revised Law entered into force in March 2018 and a central electricity supplier started activities in April 2018.

On connectivity and **transport**, the government held a number of consultations and negotiations with governmental institutions in the context of the concept note and Action Plan for 2018-2021 for the restructuring of the Moldovan railway sector and of the 'Moldovan Railways' state enterprise. In this context, the government's approval of the draft of the new Railway Code (in line with EU requirements) is pending. On road safety, the national Road Safety Strategy sets a target for reducing road deaths by 50% between 2017 and 2020. The National Road Safety Bureau is overseeing the strategy's implementation. The bilateral liberalisation of the road transport market continues. The Protocol amending the Agreement between the governments of Moldova and Ukraine on international carriage of goods, aiming at the liberalisation of road cargo transport from EURO III standards and above, was signed in April 2018 and entered into force in May 2018. A law on the creation of an independent accident investigation bureau awaits government approval. The new Aviation Code, approved by the Parliament in December 2017, entered into force in March 2019.

As regards **maritime** issues, the merchant fleet sailing under the Moldovan flag remains on the black list of the Paris Memorandum of Understanding on Port State Control. Moldova has the obligation to establish a specialised administrative authority endowed with the necessary functions and capacities of a state maritime administration, which will have as its main role the 'cleansing' of the Moldovan flag. Compliance with international rules and regulations on maritime safety remains an area of concern, particularly for the compliance of vessels with safety rules and their proper registration in the state registry.

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<sup>31</sup> <https://www.energy-community.org/implementation/Moldova/REG.html>

On the **environment**, two regulations, one on the management of waste from electric and electronic equipment and one on the establishment of a waste electronic information system, were adopted by the government in June 2018. A 2018-2028 national strategy on air quality has also been developed. An overarching reorganisation of the subordinated institutions in the Ministry of Agriculture, Regional Development and the Environment's portfolio was launched in the second phase of the public administration reform. Two governmental decisions were adopted in June 2018, one on the establishment of the Environment Agency and one on the creation of the Environmental Protection Inspectorate. Draft chemicals legislation aligning Moldovan legislation with the EU REACH Regulation<sup>32</sup> is under discussion in the Parliament.

On **climate change**, Moldova's international commitments under the Paris Agreement have shaped the country's legal and strategic framework in this field. The low emissions development strategy until 2030 and the 2015-2020 climate change adaptation strategy are under implementation. In this context, a regulation on measuring, reporting and verifying greenhouse gas emissions was developed in compliance with the respective United Nations Framework Convention on Climate Change and EU provisions, and awaits governmental approval. However, climate change mainstreaming in all areas of policy-making remains a challenge.

On **civil protection**, the process of drafting internal guidelines defining specific roles and responsibilities for disaster risk assessment is currently ongoing. Moldova is in the process of finalising the Flood Risk Management Protocol for the Dniester River Basin together with the competent Ukrainian authorities, and supported by the EU's Civil Protection Mechanism and the Prevention, Preparedness and Response to Natural and Man-Made Disasters Programme.

### ***5. Mobility and people to people contacts***

Over 2,000,000<sup>33</sup> Moldovan citizens have visited the Schengen area under the **visa-free regime** since 28 April 2014, the starting date of visa liberalisation.

As regards **irregular migration** challenges, between 2016 and 2017 the number of refusals of entry increased by 56% (from 4,660 to 7,270), while the number of illegal stays slightly increased, from 7,660 in 2016 to 8,785 in 2017 (a 15 % increase). According to the European Border and Coast Guard Agency, the trends between the first half of 2017 and the first half of 2018 indicate an increase in refusals of entry and a considerable increase in illegal stays. As regards asylum applications, after a substantial decrease of more than 50% between 2016 and 2017 (from 3,675 to 1,610), in the first half of 2018 a total of 1,665 applications were registered, 128% higher than in the same period in 2017, when 730 applications were received. The asylum recognition rate is low (1.48% in 2016 and 1.35% in 2017). The return rate (around 83% in 2017) significantly increased compared to 2016, when it was around 48%, with 3,835 Moldovan nationals returned in 2017. The quality of cooperation on readmission and return with Moldova is considered generally positive, as attested during the meeting of the Joint Readmission Committee on 6 September 2018.

The implementation of the 2014 **Education** Code and the Education Development Strategy for 2014-2020 remained incomplete in 2019. After strong anti-corruption measures were introduced for the baccalaureate exam in 2013, a steady increase in results (success rate and overall marks) has been observed. The new National Anti-corruption Strategy, adopted in

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<sup>32</sup> Regulation (EC) No 1907/2006

<sup>33</sup> Data provided by the Moldovan authorities to the European Commission.

August 2018, includes measures to fight against academic fraud. Some significant fraud cases and corruption schemes were revealed, mainly in higher education, and prosecutions are ongoing. The process of significant curricular changes started, in particular by introducing more technological and personal development aspects in primary and secondary schools.

The government took measures to make careers in teaching more attractive. In 2018, salaries further increased (by about 8%) and incentives in terms of bonuses and support for training were introduced. However, the efficiency of those measures needs to be assessed.

The foundations of a modern and effective vocational education and training (VET) system have been built, based on the 2013-2020 VET Strategy. The independent evaluation of the Strategy's implementation is still to be finalised and the new Strategy developed and adopted. The dual VET system witnessed an increase in success, as an effect of better regulations regarding the participating companies. However, some shortcomings remain to be addressed, such as the weak status and capacities of the Republican Centre for the Development of VET and the need to ensure a functioning link between the private sector and the VET system. Existing sectoral committees are not functioning despite state support and a number of economic sectors are not covered. Alternative solutions are under discussion.

The independence of the National Agency for Quality Assurance in Education and Research, which has replaced the Agency for Quality Assurance in Professional Education, must be ensured. The Agency must focus on the quality structures of the education system and its supporting institutions.

A decisive improvement in higher education system is still awaited. Streamlining the network of public higher education institutions is envisaged in the medium term. Links between education, research and the labour market are to be strengthened.

On **research and innovation**, the new Law on research entered fully into force in March 2018, with the Ministry of Education, Culture and Research replacing the Academy of Sciences of Moldova as the national institution responsible for research. The new National Agency for Research and Development, created in February 2018, has improved its operational capacities and has taken over the role of the Academy of Sciences in the implementation of the EU's Horizon 2020 programme. Adjustments are needed to maximise the opportunities for Moldova to benefit from Horizon 2020, mainly to support cooperation between business and academia. Assessment of the implementation of the recommendations of the 2016 EU funded Peer Review is ongoing. Moldova is interested in further improving the framework conditions to boost research and innovation and requested additional specific support under the Horizon 2020 Policy Support Facility. The request was granted and activities are foreseen to start during the last quarter of 2019.

On **culture**, the benefits of Moldova's participation in the Creative Europe programme remains limited. The national youth orchestra was granted participation in Creative Europe's European Federation of National Youth Orchestras programme. The revised Law on the protection of historic monuments is still under discussion. Interest in cultural heritage is increasing in society, even if progress in this sector is yet to materialise through the adoption of a revised law in line with the minimum standards in force in Europe.

## ***6. Financial assistance***

In 2018, as a consequence of the backsliding in democratic principles and the rule of law, the EU recalibrated its assistance to Moldova. This was in line with the Council Conclusions of February 2018, the European Parliament resolution of November 2018, as well as the conclusions of the 2016 audit report of the Court of Auditors, all of which calling for strict

application of conditionality to EU assistance. The assistance focuses on Moldova's implementation of structural reform efforts and on achieving tangible improvements in the lives of the citizens, in line with the 2017-2020 **Single Support Framework** for EU support to Moldova and the '20 Deliverables for 2020' under the EaP.

The 2017 **Annual Action Programme** (AAP) was amended, reducing the annual envelope to €56 million (from €79 million) and focusing on programmes that support CSOs, strategic communication and independent media, and on strengthening Moldova's energy security. Under the 2018 AAP, €50.75 million was committed to programmes supporting inclusive economic empowerment in the Ungheni and Cahul focal regions in the west and south of the country (€23 million), contributing to confidence building measures (CBM) between two banks of the Dniester river (€10.5 million), strengthening the rule of law and anti-corruption mechanisms (€8 million) and supporting implementation of the AA/DCFTA in Moldova, specifically through a top-up to EU horizontal programmes (e.g. Erasmus+) and through a dedicated programme on gender (€9.25 million). The action on support to CBM has already been launched, while the financing agreements for the remaining actions were signed in July 2019. As part of the 2019 AAP, the EU is planning to support water supply, sanitation and waste management in the region of Cahul and the ICT sector by establishing an innovation centre in the same region. More support will be also channelled to the civil society and through the Neighbourhood Investment Platform to support energy efficiency in Moldova.

The **MFA programme** entered into force in January 2018. Disbursements are conditional on Moldova meeting political pre-conditions (respect for democratic mechanisms, the rule of law and human rights), maintaining a good track record in implementing the current IMF programme, and fulfilling a set of specific policy conditions set out in the Memorandum of Understanding. Budget support disbursements and payments under the MFA programme were not made in 2018 as the political conditions were not met. After the new government took office on 8 June 2019, the negative trend has started being reversed with the government's programme focusing heavily on reforms in key areas, including the judiciary, democratic principles and anti-corruption. Following the European Council Conclusions on Moldova on 20 June 2019, and following the assessment of the political, sectoral and macro-economic situation, the EU took a decision to resume **budget support payments** in July 2019.

The EU also resumed the EU High Level Advisors mission in July 2019 to the government with a view to quickly mobilising advice on key issues such as anti-corruption, customs, CBM and energy.

EU **assistance for structural reforms** was implemented also by EU Member States through the twinning instrument and through the Technical Assistance and Information Exchange instrument.

In September 2018, the EU Roadmap for **engagement with civil society** was annexed to the first European Joint Development Cooperation Strategy for Moldova.

Several projects completed in 2018, such as the biomass and energy efficiency project, had a direct impact on improving the lives of people in Moldova. More than 200,000 people directly benefited from the CBM projects in Transnistria. This resulted in the creation of more than 100 new social infrastructures and access to the EU market for more than 500 companies. Likewise, the 'support to agriculture and rural development' component of the CBM created more than 100 new jobs in Gagauzia.

Moldova continues to benefit from regional programmes supporting small and medium enterprises' capacities, access to finance, fostering growth and improving the overall business environment, as part of the EU4Business Initiative.

## ***7. Concluding remarks and outlook***

The AA/DCFTA, together with reforms in the economic field, aim to bring improvements in the lives of the citizens. In 2018, backsliding in democratic standards and the rule of law raised serious concerns with regard to Moldova's adherence to EU key values and principles set out in the Association Agreement. Urgent and serious reaction was expected from the Moldovan authorities, in particular to ensure that the February 2019 elections were credible, inclusive and transparent.

Following the February 2019 parliamentary elections, which were recognised by the international observers as generally held in compliance with international democratic standards, the EU welcomed the transition of power in Moldova in June 2019. As confirmed in the HR/VP Mogherini and Commissioner Hahn's statement, the EU remains ready to work with the new Moldovan government on the basis of a mutual commitment to the reforms and to the core principles enshrined in the EU-Moldova Association Agreement. In July 2019, the EU resumed budget support assistance to the country. Robust progress is now essential on judicial reform, on the economy, on compliance with the rule of law and democratic standards, and on ensuring media plurality. Rapid action is needed to meet the legitimate expectations of Moldovan citizens and to ensure the country's adherence to the values the Association Agreement is based on. In particular, there is an expectation that the prosecution of the banking fraud is pursued in a comprehensive and impartial manner, that the judiciary system is reformed substantively and starts operating independently, and that high-level corruption is fought decisively.

Increased trade and growth of Moldovan exports to the EU have contributed to the country's economic growth, starting to bring tangible results. Reforms in the economic and banking sector need to be continued and deepened. The ongoing stabilisation of the country's banking sector and foreign investments from the EU will continue to be key parts of Moldova's future development. More broadly, the Association Agenda adopted in 2017 and the February 2018 Council Conclusions encompass the key set of priorities to be met.

Implementing the priorities of the Eastern Partnership, including the '20 deliverables for 2020', remains another strong driver of reforms. The EU continues to support Moldova in its implementation of these priorities, and at the same time continues to apply the principle of strict conditionality in its financial assistance. The EU remains engaged with Moldovan authorities, but most importantly with Moldovan society through programmes that bring tangible benefits to the people of Moldova.