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Progress in 2014 and recommendations for actions

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HIGH REPRESENTATIVE OF THE
EUROPEAN UNION FOR
FOREIGN AFFAIRS AND
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JOINT STAFF WORKING DOCUMENT

Implementation of the European Neighbourhood Policy in the Republic of Moldova Progress in 2014 and recommendations for actions

Accompanying the document

JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Implementation of the European Neighbourhood Policy in 2014

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS FOR ACTION

This document reports on progress made between 1 January and 31 December 2014 on the implementation of the EU-Republic of Moldova Association Agenda. The Association Agenda replaced the European Neighbourhood Policy (ENP) Action Plan in June 2014. Developments outside this period are considered where relevant. This report is not a general assessment of the political and economic situation in the Republic of Moldova (hereinafter referred to as 'Moldova'). Information on regional and multilateral sector issues is contained in the Eastern Partnership Implementation Report.

2014 was a period of general political stability overall for Moldova and the government continued to work steadily on the country's European agenda. Major achievements were reached in 2014 in the bilateral relations between the EU and Moldova. On 27 June 2014, Moldova and the EU signed the Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA) and Moldova swiftly ratified the agreement on 2 July 2014. The major parts of the AA/DCFTA took effect provisionally on 1 September 2014, pending ratification by all EU Member States. Starting from 28 April 2014, Moldovan citizens were able to travel to the Schengen area visa-free, providing them with a tangible benefit of EU-Moldovan cooperation. Around 360000 people took advantage of this opportunity in 2014.

High-level contacts between the EU and Moldova continued to intensify in 2014. A first-of-its kind meeting between the Moldovan Government and the EU College of Commissioners took place in May 2014. The last EU-Moldovan Cooperation Council before the provisional entry into force of the Association Agreement was held in June 2014.

Moldova made less progress than in previous years on deep and sustainable democracy and on the respect of human rights and fundamental freedoms. The overall level of political freedom in Moldova continued to be comparatively high. According to the International Election Observation Mission, the parliamentary elections held on 30 November 2014 offered voters a wide choice of political alternatives and were generally well administered. However, one contestant was deregistered a few days before the elections, and one political party took part in the elections despite a court decision to deregister it. There were also problems over the functioning of the electronic system for the processing of voters on the polling day and the opening of criminal cases against several supporters of the deregistered Patria party in December 2014 raised concerns.

The media enjoyed a good level of freedom in comparison with the region as a whole. However, there were some concerns over the concentration and transparency of media ownership, as many outlets were subject to political interference. The government made some progress on implementing legislation on judicial reform and, by the end of 2014, some important parts of the benchmarks for the 2011-16 Justice Sector Reform Strategy had been implemented. However, corruption in the Moldovan judiciary remained a major concern and the reform of the Public Prosecutor's office has stalled. Reforms to prevent torture, to better ensure gender equality and on the protection of children were launched and continued in 2014. Moldova also made limited progress on reforming its public administration and on fiscal decentralisation. The reform of the public sector has been hampered by vested interests closely interlinked with politics.

Civil society in Moldova is still rather weak, but has grown in a favourable environment. The partnership between public authorities and civil society organisations (CSOs) made continuous progress, which resulted in particular in a heightened role for civil society in decision-making.

With support from the Organisation for Security and Cooperation in Europe (OSCE), Moldova attempted to redefine the relationship between the Gagauz Autonomous Region and the central authorities, but little progress was made.

Moldova's economy faced a difficult situation in 2014 in light of numerous trade embargoes imposed on Moldovan goods by the Russian Federation and uncertainty related to the situation in Ukraine. After impressive growth in 2013, GDP growth slowed down in the first half of 2014. The EU-28 remained the main trading partner of Moldova with a trade weight of 53.2% in total exports and 48.2% of total Moldovan imports.

Serious problems in Moldova's financial sector posed a risk to stable economic development. Shortcomings in the banking sector came to the fore at the end of 2014 with two consecutive decisions by the National Bank of Moldova to place three major commercial banks under special administration, representing about 30% of total banking assets (Banca de Economii and Banca Sociala, followed by a similar decision on Unibank). No new agreement was concluded with the IMF after the end of the previous IMF programme in April 2014, as the Moldovan Government had some objections to IMF requirements for sound fiscal policies.

Moldova made some progress on reforms to adapt its economy to comply with the Deep and Comprehensive Free Trade Area, for example on the free movement of goods, on technical regulations, customs, sanitary and phytosanitary standards and company law. However, the investment climate remained difficult.

In August Moldova inaugurated a gas interconnector with Romania, marking a step forward in its efforts to improve energy supply security. A pre-feasibility study on the construction of the connecting pipeline to Chişinău has also begun.

Moldova made some overall progress in implementing the Association Agenda and the ENP Action Plan, including by implementing the Justice Sector Reform Strategy, and on reforming gender equality and the protection of children.

Minimal progress was reached towards a resolution of the **Transnistrian conflict**. In 2014, only two rounds of negotiations in the "5+2"-format took place and several rounds were postponed.

Based on the assessment of its progress in 2014 on implementing the ENP, Moldova should focus its work in the coming year on:

- revising the Constitution in order to prevent further institutional deadlocks. This process should be conducted in an inclusive manner. Parts of Moldova's political spectrum and the Council of Europe's Venice Commission will need to be consulted on constitutional reform;
- continuing to improve media freedom by making media ownership more transparent, ensuring the independence of the Audiovisual Coordination Council, and adopting a new Audiovisual Code;

- completing the reform of the Ombudsman, consolidating the system of human rights protection and ensuring that the National Human Rights Action Plan is implemented fully;
- intensifying the fight against corruption and focusing on corruption prevention. It is particularly important that Moldova reforms the public prosecution service and the judiciary and ensures that the National Anti-corruption Centre and National Integrity Commission are fully independent;
- continuing to reform the legal framework for elections in line with recommendations by the OSCE/ODIHR and the Council of Europe's Venice Commission, in particular strengthening campaign finance regulations;
- making firm progress on justice and law enforcement reform. This will involve consistent and forceful implementation of the Justice Sector Reform Strategy and continuing the reform of the Ministry of Interior and other relevant bodies;
- eliminating failings in the legal system that allow money laundering and 'raider attacks' to take place;
- continuing progress on sectoral reforms and bringing Moldovan law into line with the EU *acquis* to implement the AA/DCFTA; raising public awareness and visibility of the merits of the Association Agreement;
- intensify the efforts to improve the business and investment environment, ensure a level-playing field for all economic operators, increase the competitiveness of the Moldovan economy and counter the shadow economy;
- providing better public services by deepening and strategically steering the reform of public administration and implementing the decentralisation strategy in an inclusive manner;
- taking steps to improve corporate governance and oversight in the financial sector. This includes strengthening shareholder transparency and the National Bank's supervisory powers in the banking sector;
- continuing to engage proactively with the Transnistrian side to promote a mutually acceptable vision for a common future, and creating conditions enabling the application of the AA/DCFTA to the entire territory of Moldova;
- continuing to integrate national minorities. This will include ratifying the European Charter for Regional and Minority Languages and further developing and implementing a strategy on the integration of national minorities, in close cooperation with the OSCE High Commissioner on National Minorities;
- adopting the necessary measures to fully implement the new Education Code, and starting to implement the vocational education and training restructuring plan.

2. POLITICAL DIALOGUE AND REFORM

Deep and sustainable democracy

In June 2014 Moldova and the EU signed the AA/DCFTA. The agreement committed Moldova to developing democratic institutions and to upholding human rights in accordance with European Union rules and standards. The agreement was ratified in July 2014 and provisionally came into force in September 2014.

In October 2014 Moldova's Constitutional Court rejected a legal challenge by the Party of Communists of the Republic of Moldova (PCRM) against the constitutionality of the AA/DCFTA. The court confirmed the AA/DCFTA's constitutionality, adding that any position against Moldova's alignment with Europe would be 'a priori unconstitutional', based on the consideration that Moldova's European alignment follows logically from its declaration of independence.

According to the International Election Observation Mission, the parliamentary elections held on 30 November 2014 offered voters a wide choice of political alternatives and were generally well administered. However, one contestant was deregistered a few days before the elections, and one political party took part in the elections despite a court decision to deregister it. There were also problems with the functioning of the electronic system for the processing of voters on polling day and the opening of criminal cases against several supporters of the deregistered Patria party in December 2014 also raised concerns.

Electoral legislation was improved through amendments to the Electoral Code. These included introducing a centralised voter registry and discontinuing the use of Soviet-era passports. Recommendations by the Council of Europe and the OSCE Office for Democratic Institutions and Human Rights (ODIHR) to reduce the electoral threshold remained unaddressed. The Moldovan authorities have so far not introduced any special measures to facilitate minority representation in Moldova's proportional representation electoral system.

In general, **freedom of expression** and **freedom of media** remained good in Moldova in comparison with the region as a whole, with free access and a large number of media outlets. Despite some attempts to improve media freedom in 2014, no real progress was made, especially on ensuring transparency in mass media financing and ownership. The Moldovan media continued to be controlled by a handful of political and business interest groups. Concerns remained that it is not sufficiently transparent or pluralistic.

The draft Audiovisual Code, drawn up in 2011 with support from the Council of Europe, the EU and civil society, has yet to be adopted by the Moldovan Government and Parliament. Proposed amendments included improving ownership transparency, editorial freedom, media plurality and independence of the Audiovisual Coordination Council. At the beginning of 2014, Moldova's commitment to upholding the principle of media plurality was shaken by a seemingly politically motivated attempt to restrict several television channels' access to the audiovisual landscape. The perceived lack of independence of the Audiovisual Coordination Council remained a concern. Media plurality was also limited by an unfavourable financial environment for the media sector, as the advertising services and mail delivery services markets were heavily monopolised.

Moldova continued to work in 2014 on implementing the 2011-16 **justice sector** reform strategy by implementing some important parts of the benchmarks laid down in the action plan. However, the pace of reforms slowed in the second half of 2014. Corruption and the stalled reform of the public prosecution service remained major concerns, as confirmed by an external assessment mission evaluating the implementation of the EU-supported justice sector reform programme.

In 2014 Moldova continued implementing the laws on **judiciary reform** that were adopted by parliament in the previous two years. The laws introduced a new system for appointing, promoting and periodically assessing the performance of judges, based on a transparent procedure and a balance of quantitative and qualitative criteria. This system created the conditions for a transparent and merit-based promotion system for judges. Most judges have been assessed under the new system, although the procedure and outcome of assessment process remained questionable, with some methodological imperfections leading to excessively positive appraisals of judges. The European Judicial Training Network (EJTN) granted the status of observer to the National Institute of Justice of the Republic of Moldova in June 2014.

In order to ensure fair trials, the authorities introduced a random case allocation system and the audio recording of court proceedings. A single courts portal was introduced in April 2014 to increase the transparency of the judiciary.

The government adopted a law on judges' disciplinary responsibility by decree in July 2014. The law ensured that there is a clear separation between ethical and disciplinary responsibility, defined grounds for disciplinary responsibility, laid down revised transparency procedures, introduced new (financial) sanctions and ensured the impartiality of the Committee on disciplinary responsibility.

No progress was made on reforming the public prosecution service. One of the most serious problems was the General Prosecutor's Office's lack of independence under the current legal framework. In July 2014, the Moldovan Parliament managed to adopt only the concept of prosecution service reform. In November 2014, following intense policy dialogue, the draft prosecution service law drawn up by a working group in 2013 was sent to the Venice Commission for review. The Ministry of Justice only started preparations to ratify Protocol 12 to the European Convention on Human Rights in 2014.

Moldova's political and economic development continued to be hampered by systemic and high level **corruption**. Corruption still remained a major cause of concern, with the sectors most vulnerable to corruption including the judiciary, customs, public procurement, health, the social sphere and education. Moldova continued to implement its 2011-15 national anti-corruption strategy. In May 2014, after a delay of more than five months, parliament approved the 2014-15 action plan to implement the strategy. In 2014, Transparency International ranked Moldova 103th out of 175 countries on its Corruption Perception Index (in 2013 Moldova ranked 102nd out of 177 countries.)

The previous progress report on Moldova recommended full independence for the National Anti-Corruption Centre which has not happened. The National Anti-Corruption Centre still answers to the government rather than to parliament. This is not in compliance with international anti-corruption standards and the criteria of Moldova's visa liberalisation action plan and has had a negative impact on the investigation of high-level corruption. Other factors

hampering the fight against corruption were low penalties and in some cases impunity, and the lack of autonomy, capacity and independent decision-making shown by the anti-corruption unit of the General Prosecutor's Office, which was responsible for prosecuting corruption cases following investigation by the National Anti-Corruption Centre.

The professional integrity testing law came into force in August 2014, but cannot be efficiently implemented unless the entire domestic legal framework is adjusted in order to take account of the law. In May 2014 a corresponding legislative package was drafted and submitted to the government. Despite strong calls from civil society, the legislative package was not adopted in 2014.

Although a legislative framework was in place to encourage the development of **civil society**, the third sector remained weak at local and regional level and in rural areas. Civil society participated in decision-making at central level through the advocacy activities of the National Participation Council, which monitors the government, and the NGO Council, which monitors parliament. However, active participation in supervising the implementation of government policies and monitoring local public authorities was low. The 2012-15 national strategy for civil society development was only partially implemented. The strategy's main objectives were: (i) strengthening the role of civil society organisations in monitoring policy implementation, (ii) addressing the financial sustainability of civil society organisations and (iii) developing active civic spirit and a volunteer culture. Although participation of civil society in decision-making processes increased, few civil society recommendations were actually adopted because a consultation mechanism was not fully in place.

Civil society organisations in Moldova had relatively few financial ties to government, but they suffered from a lack of civic participation and a lack of public confidence in the sector. As a result, civil society organisations were donor-driven and adopted a segmented, fragmented, project-based approach, limiting their overall impact. The adoption of the '2%' Law in July 2014, providing funding for non-commercial organisations through fiscal redistribution, was a major achievement. However, until practical mechanisms to implement the law are adopted, its implementation is unsure. Social dialogue improved through the activities of the National Commission for Consultation and Collective Bargaining, but trade unions rarely achieved policy change and businesses resorted more often to informal, non-transparent methods of negotiation.

Other human rights and fundamental freedoms

Some progress was made on the respect of **human rights**. The reform of the **Ombudsman's** office to bring it in line with the Paris Principles on national human rights institutions proceeded slowly. A new law on the Ombudsman (the Law on the Public Advocate) was adopted by parliament in April 2014, after an earlier draft had been returned to legislators by the President in response to complaints from development partners and civil society. New ombudsmen have not yet been selected under the new law due to a lack of consensus in parliament on the selection process for candidates, and this weakened the Ombudsman's office as an institution.

Moldova launched reforms to prevent **torture**, including in psychiatric facilities. An anti-torture division was created within the General Prosecutor's Office, ensuring efficient and independent investigation of torture and ill-treatment. Substantial efforts were made to

improve the prison system, including plans for new penitentiary facilities and reforms on young offenders.

The government began to take steps to promote the integration of **national minorities** into society. In line with the government's action plan, the Bureau for Inter-ethnic Relations formed a working group to draft a 'Strategy on the integration of national minorities' with support from the OSCE High Commissioner on National Minorities. The drafting of the strategy was suspended in October 2014, due to the parliamentary electoral campaign. As part of its efforts to strengthen Romanian as the state language, the Ministry of Education drafted amendments to the Educational Code. Under the new code, which came into force in October 2014, the Russian language was made an optional rather than a compulsory subject for schools teaching in Romanian, which caused concern among some minorities. The Council of Europe's European Charter for Regional and Minority Languages was signed by Moldova in 2002, but has yet to be ratified.

Considerable challenges remained concerning the functioning of the **autonomous region of Gagauzia**. There were tensions between the central authorities and the autonomous region of Gagauzia due to a lack of clarity in their relationship. In February 2014 a referendum on the foreign policy orientation of Moldova was held in Gagauzia, with an overwhelming majority voting in favour of Eurasian integration. Although the referendum was declared illegal by the central authorities, it proceeded peacefully. With the OSCE's support, several working group meetings were held between the Moldovan Parliament and the Gagauz People's Assembly to address structural problems in the relationship between the central authorities and the Gagauz Autonomous Region, caused by the unclear legal and constitutional framework. However, attempts to improve the situation have led to little result so far. A draft law tabled unilaterally by some MPs, amending certain Moldovan laws to bring them in line with the Law on the Special Status of Gagauzia, passed its first reading but was not supported by the Gagauz representatives.

The network of Roma community mediators expanded considerably during 2014, and began to make some progress, with half of the intended mediators in place and a civil society organisation of Roma mediators formed. As expected, even at this early stage, mediators made important contributions to Roma inclusion at local level. On the other hand, limited progress was made in integrating several segregated school areas, with continued work needed in this area in 2015.

Shortcomings remained on the protection of people involuntarily institutionalised and of people with mental **disabilities**. In 2014 the Ministry of Health took steps to train health professionals in human rights and took a number of steps to move reforms forward in this area. Some courts, including the Constitutional Court, provided leadership in indicating where reform should be pursued. One of the aims of the reform was to achieve a transition towards deinstitutionalisation and community-based services for people with mental disorders and disabilities. Measures under the reform included reforming the guardianship system for people with disabilities, ensuring that the Ministry of Health's human rights oversight mechanism for psychiatric institutions works efficiently and eliminating forced detention of people with tuberculosis or other diseases.

Moldova continued to implement the 2012 law on **equality**. The Equality Council created under this law became operational and, in March 2014, approved a plan to implement the law on equality. A public information campaign on preventing discrimination and how to ensure

equality continued in 2014. Since its creation, the Council received 108 complaints and examined 79 of them. Twenty-nine decisions were taken, seven of which related to the private sector and twenty-two to the public sector. The second parade for the lesbian, gay, bisexual, transgender and intersex community was held in Chişinău in May 2014: this was the first to be held without any legal challenge from the Chişinău city authorities. The Ministry of Interior provided good protection for the demonstrators.

Progress was made in promoting **gender equality**, especially on women's participation in decision-making. The government approved a draft law on introducing a minimal representative quota of 40% for women on the electoral lists of political parties, but this law has not yet been approved by parliament. Women held only 20% seats in the outgoing parliament and the proportion will be the same in the incoming parliament. Underrepresentation of women in public life remained an issue: 18.5% of serving mayors are women, and women hold 17.4% of seats in district and municipal councils and 28.6% in local councils. This was also an issue in the private sector, the third sector and tripartite mechanisms. Women faced specific barriers on the labour market and faced a significant pay gap (women's wages are 87.1% of men's wages). On a positive note, according to the International Labour Organisation report 'Women in Business and Management, Gaining Momentum' 2015, Moldova ranks in 10th place for women with management experience, with 44.1% of all managers in Moldova being women. Moldova's General Police Inspectorate conducted information campaigns together with specialised NGOs on the legal framework governing the prevention of domestic violence. The General Police Inspectorate also took action towards further reform on gender-based violence and this was ongoing at the end of 2014, in particular as concerns amending practices for prosecuting rape.

The government approved a **child protection** strategy for 2014-20 to reduce the number of children in residential care, to prevent and combat violence against children and prevent exploitation, and to assist families in balancing work and family life. **Freedom of religion or belief** was generally well respected, but questions remained over discrimination in the restitution of church property, the privileged role for the Orthodox Church in religious instruction in schools, and the registration of certain religions or belief communities.

In July 2014 parliament adopted a package of laws to combat extremism in its first reading. However, concerns remained over the draft law in its current form. These related to the transparency and inclusiveness of the legislative process, limitations on due legal process, and the vague definition of extremism, which opens the way to arbitrary decisions.

Other governance-related issues

Moldova made limited progress on depoliticising and professionalising its central **public administration**, in the absence of a clear strategy for public administration reform. The average salaries of civil servants remained low and the civil service remained structurally weak due to staff moving to the private sector or to international organisations and because of corruption.

Partial fiscal **decentralisation** was in progress, with the new system operating as a pilot scheme in certain regions. The capabilities of local authorities varied widely due to the high number of local entities, underscoring the need for public administration reform in Moldova to include a reorganisation of local government.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

In 2014 Moldova aligned with 31 out of the 49 EU Common Foreign and Security Policy (CFSP) declarations (63%) which it had been invited to support. In 2013 the figure was 15 out of 32 (88%).

In June 2014 the first representative from Moldova was seconded to the EU-led Common Security and Defence Policy (CSDP) Mission in Mali (EUTM Mali) serving as the gender and human rights instructor on the mission.

Limited progress was made on resolving the **Transnistrian conflict**. In 2014 only two rounds of negotiations in the '5+2' format took place and several rounds were postponed due to conditions set by Transnistria in response to what it saw as unfriendly legislative measures taken by the Moldovan authorities. With Russia's support, Transnistria continued to resist discussion of security and status issues. As a result, the parties in the negotiations followed the 'small steps approach', mainly focusing on technical issues on freedom of movement of people on both banks of the river Nistru, economic aspects, problems over the functioning of the Latin-script schools in Transnistria, free access by Moldovan farmers to fields situated across the main Tiraspol-Camenca road and the dismantling of the cable car between Rîbnița and Rezina.

The overall situation in the security zone remained tense, but stable.

In June 2014 in order to stimulate business activity in the region, the Moldovan Government approved exceptions on import/export duties for economic operators residing on the left bank of the Nistru. In July 2014 the Moldovan Parliament adopted a declaration on the country's territorial reintegration in the context of Moldova's European integration. In the declaration, the Moldovan authorities called on Transnistria to take a pragmatic approach to this process and to refrain from hindering Transnistrian companies' access to European markets.

Relations between the two sides stalled in the second half of 2014 and became increasingly antagonistic in November and December. In response to stricter border checks on goods along the border with the Transnistrian segment and plans to prevent Transnistria-registered vehicles from entering Moldova and Ukraine, Transnistria introduced an obligatory insurance fee for all vehicles (including Moldovan ones) entering Transnistria. Simultaneously, Transnistrian leader Yevgeny Shevchuk introduced a draft law that would introduce visas for all visitors to Transnistria (requiring prospective visitors to have an invitation and pay a fee).

3. ECONOMIC REFORM AND SOCIAL REFORM AND DEVELOPMENT

Moldova's **economic growth** is estimated to have slowed to 2%¹ in 2014 from 9.4% in 2013. Agricultural output decelerated in 2014, after it grew by 40% in 2013. Other factors slowing growth included uncertainty over the tensions in Ukraine, numerous Russian trade restrictions and difficult economic conditions in Moldova's main export destinations.

¹ For sources and detailed figures, see Statistical Annex accompanying the reports; figures without sources are forecasts by Commission services.

Headline inflation was 4.6 %, with the inflationary effect of currency depreciation from 2014 counterbalanced by weaker economic growth and lower oil and food prices. The sharp depreciation of the national currency in late 2014 led the National Bank to intervene massively in foreign exchange markets, which resulted in a significant reduction of its gross international reserves.

In May parliament adopted amendments to the law on **public debt**, state guarantees and state lending, in line with World Bank recommendations. The amendments will take effect in 2015. A law on public finances and fiscal responsibility was adopted in July, aiming to establish a modern system of public financial management.

The official **unemployment rate** in the third quarter of 2014 was just 3.3 % (down from 3.9 % in the same period of the previous year). The decline was attributed to agricultural growth, which led unemployment in rural areas to fall from 3.3 % a year earlier to only 1.9 %. The employment rates remain very low (at around 40%), especially for women. Labour market indicators are distorted due to the high levels of informality and of emigration. The implementation of the national action plan for employment, which targets vulnerable groups, began following its approval in 2013.

The government adopted the national **agriculture and rural development** strategy for 2014-20. An action plan to complement the strategy is currently passing through inter-ministerial consideration. It will be paid for out of the national budget and from other external sources of funding, including the EU-funded European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) for Moldova (for which an agreement was signed in November) and the European Investment Bank.

The adoption of the 2015 state budget law was delayed due to the parliamentary elections on 30 November 2014. In the meantime a provisional budget is being used, based on and not exceeding the budget of 2014, but taking into account the financial changes modifications for 2015.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU-28 remained Moldova's main **trading partner**, with total trade in goods amounting to EUR 3.51 billion in 2014.

EU imports increased in 2014 by 20% amounting to EUR 1.16 billion. In contrast, EU exports slowed down, increasing by a mere 3% for the same time period, up to EUR 2.35 billion in value. A series of trade restrictions introduced by the Russian Federation and the deepening crisis in Ukraine slowed down Moldovan exports to those countries, making the EU market even more important as export destination. The EU Regulation on autonomous trade preferences, granting unilateral duty-free access to the EU market for the main Moldovan export products by setting tariff-rate quotas and applicable until 31 December 2015, was revised in 2014 to include three new tariff-rate quotas for fresh fruits, which were the products most adversely affected by Russian restrictions. Following the removal of tariff rate quotas for Moldovan wine, the value of imports to the EU grew by 10 %.

The EU-Moldova **AA/DCFTA** was signed in June and has been applied since September 2014. Moldova started to reduce and/or eliminate import duties in line with its commitments

and adopted implementing provisions to manage the tariff rate quotas on imports of selected EU products in November. The timetable for Moldova's commitments to bring its legislation into line with the EU *acquis* also started to apply from September, and Moldova and the EU began to exchange information on implementation.

Moldova simplified custom procedures and made them more efficient, including by introducing and implementing an electronic declaration procedure for imports and exports. Moldova developed the concept of Authorised Economic Operator (AEO) in August 2014 and started to grant this status to a first set of applicants. Green lanes for AEOs were put in place at all border crossing points. These reforms, together with improved risk assessment processes, aim to decrease clearance times and the number of physical checks. In order to align Moldova's classification system with EU legislation, in July a law was passed on approving the combined nomenclature of goods, introducing the latest version of the harmonised system for classification of goods (HS 2012).

On the **free movement of goods and technical regulations**, strict rules were introduced for non-food goods. Important pieces of legislation (amendments to the Law on accreditation and conformity assessment, amendments to the Law on metrology, a new Law on market surveillance, and amendments to the Law on general product safety) were drafted and presented to parliament for adoption. Parliament adopted legislation approximating to the EU technical regulations for several industrial products. Furthermore, Moldova progressed on standardisation, having integrated 2 060 European standards in the domestic framework and withdrawing 1 090 conflicting standards. In 2014 the National Institute of Standardisation became an affiliated member of the European Committee for Electro-technical Standardisation and an observer of the European Telecommunications Standards Institute.

Moldova made progress on food safety reforms and regulatory approximation of **sanitary and phytosanitary** legislation to EU law. Moldova continued to approximate product-specific rules with the EU *acquis* and worked on strengthening its administrative capacity to deal with food safety risks, for which collaboration with FAO began in September. Furthermore, Moldova submitted in November the list of those EU laws to which it intends to approximate its legislation in the food safety area, in line with the Association Agreement.

On **company law**, new legislation was introduced to improve procedures for obtaining authorisations, by eliminating the duplication of powers between central and local authorities, removing conflicting regulations and facilitating the voluntary liquidation of businesses. The government also undertook a series of regulatory reforms, by simplifying the procedures for starting a business, getting electricity and obtaining construction permits. This improved Moldova's indicators in the World Bank's Doing Business report, pushing Moldova's ranking up from 86th in the previous year to 78th in the latest Doing Business report.

Structural weaknesses in **financial services** were partly addressed by legislative amendments adopted by government decree in July and September. The National Bank continued to foster the banking system's prudent development through continuous improvement of prudential regulations and banking supervision, including implementation of the Basel II/Basel III framework. Fundamental shortcomings in the banking sector management came to the fore at the end of 2014 with two consecutive decisions by the National Bank to place three major commercial banks under special administration. The three banks, Banca de Economii, Banca Socială and Unibank, accounted for about 30 % of total banking assets.

The National Commission for Financial Markets continued to implement its strategy to develop the non-banking financial market, giving priority to bringing rules into line with EU directives and strengthening institutional and operational capacities. In July amendments were introduced to improve the legal framework for the car insurance market and third party liability insurance, in accordance with European and international practices.

Amendments to the **competition law** were adopted in March to create the necessary conditions to allow the Competition Council to implement the law and state aid rules more effectively. The amendments introduced changes in cross-references to other legislation in order to further strengthen enforcement of the competition law. A state aid register was introduced to make state aid decisions more transparent.

An amendment to the **public procurement law** was adopted by parliament in June 2014. It aims at approximating with the EU *acquis*, notably by providing increased transparency, oversight of procedures, optimised participation requirements and complaints management. The Public Procurement Agency of Moldova adopted a roadmap to implement the Association Agreement/DCFTA.

Regarding **intellectual property rights**, Moldova adopted in July a law that regulates the activity of the State Agency on Intellectual Property. Legislative amendments were also made on trademarks, on patents, on plant varieties and industrial designs to ensure compliance with the Association Agreement/DCFTA. Parliament passed a law on national symbols protecting geographical indications, protected appellations of origin and traditional specialties guaranteed (TSG).

Guidelines for **Public Internal Financial Control (PIFC)** were drafted and internal audit and internal control capacities were developed; nevertheless the PIFC framework is not being implemented at the foreseen pace. A programme for the continuous development of internal audit was established and national internal audit standards were revised.

Legislation on **statistics** was revised in accordance with European standards. The population and housing census conducted in May 2014 was implemented in accordance with European requirements. Improvements were noted in the availability and quality of national accounts, business, environment and external trade statistics and a quality framework was introduced.

Moldova reformed its **tax system**, bringing VAT and excise legislation into line with the EU *acquis* and international requirements. Excise duties on tobacco products, alcohol and energy products were increased, with the aim of gradually reaching the minimum EU rates by 2025. An action plan was launched to implement the tax part of the **Association Agreement**, covering the period 2014-16. In cooperation with the Ministry of Finance, Moldova's tax authority started preparatory work on introducing the Transfer Pricing regime. The tax authority also launched a comprehensive organisational modernisation programme and started preparing strategies, aligned with the Association Agreement Action Plan, to develop key business and IT tools.

The government adopted a roadmap for improving **competitiveness** and established a Council for Competitiveness. A new SME law as well as an action plan to implement the 2015-17 SME development strategy were drafted, and Moldova became the first Eastern Partnership country to conclude an Agreement with the European Union on its participation in the Competitiveness of Enterprises and Small and Medium-sized Enterprises programme (COSME).

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Moldova drafted its 2014-17 national strategy on integrated **border management** and an action plan to implement the strategy, for the purpose of applying the Schengen standards on information exchange in the field of border control. In January, changes were made in line with Frontex² regulations to the system of monthly information exchange with the central office of the Border Police Department of the Ministry of Internal Affairs. The EU Border Assistance Mission (EUBAM) to Moldova and Ukraine made a sustainable contribution to the development of border management procedures. An inter-institutional group on risk analysis was created. The technical part of the demarcation of the Moldovan-Ukraine border was finalised, in accordance with the Moldova-Ukraine border demarcation plan for 2014. A practical handbook on joint border patrols was drafted and 248 joint patrols were conducted in the first five months of the year. Moldova and Ukraine agreed to set up a new jointly-operated border crossing point in Palanca, which will be built with EU support.

In the framework of the EU-Moldova **Mobility Partnership**, Moldova made good progress on adopting and implementing migration- and asylum-related legislation and on making its migration management system more efficient. Of particular significance were the drafting of a 'Methodology on combating illegal stays by foreigners on the territory of Moldova' (to be approved by ministerial order in January 2015) and a 'Handbook on good practices for police on combating illegal migration', and the approval of a 'Blueprint to combat illegal migration on the territory of Moldova'. Progress was made on dealing with irregular migration through the opening of three regional offices of the Bureau for Migration and Asylum's directorate for combating illegal stays by foreigners.

The six new local offices of the Moldova's Bureau for Migration and Asylum performed well and recorded an increase in registrations. These were set up in the Transnistrian security zone to offer additional registration services to foreigners arriving through the non-controlled segment of the Moldovan border. Through the work of these offices, the Bureau for Migration and Asylum was able to gather important migration data, which contributed to its analytical work on risk analysis.

In September, a technical group on risk analysis in the area of **migration and asylum** was set up. By the end of 2014, the first risk analysis methodology had been prepared and the extended migration profile report covering the period 2008-13 had been updated. The Bureau for Migration and Asylum carried out an expert analysis of the information system on migration and asylum and this served as the basis for the preparation of a roadmap that is pending approval.

The number of asylum-seekers in Moldova increased by 50% compared to the previous year, but remained manageable overall (245 applications in 2014). The vast majority of asylum applications in 2014 originated from Ukraine (134 applications). Amendments to the law on asylum were drafted to transpose EU directives in this area but they still needed to be presented to parliament for adoption. In parallel, improvements were made to reception conditions for asylum-seekers and to the refugee status determination procedure. Samples of travel documents for refugees were printed. Inter-agency arrangements and the testing process

² European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex)

were launched in December 2014 and the first travel documents are expected to be issued to refugees and beneficiaries of subsidiary protection in February 2015.

The laws on social assistance, on social aid and on social services were amended to ensure that they also cover foreigners, stateless persons and beneficiaries of international protection. In parallel, Moldova strengthened its comprehensive policy on integration by approving a blueprint on creating a system for the integration of foreigners.

The government incorporated migration into national development strategies in the form of a proposal for a national action plan on the return and reintegration of Moldovan migrants. This document became especially relevant following changes in the Russian immigration legislation in 2013 and 2014, and the consequent return of thousands of Moldovan migrants. The issue of Russian re-entry bans for Moldovan migrant workers who violated the new migration legislation became a major concern for Moldova's government and could have severe economic implications, as remittances from Russia amounted to nearly 25% of Moldova's GDP.

In April, the visa-free **travel regime** to the Schengen area for Moldovan citizens with biometric passports came into force. A national action plan to prevent and combat abuses of the visa-free regime was adopted and implemented. By September, over 200 000 Moldovan citizens had travelled visa-free to the Schengen area. The upgraded Visa Facilitation Agreement continued to apply to holders of non-biometric travel documents.

On the fight against **trafficking in human beings**, standard operating procedures were developed in line with EU standards and good practices. Instructions on joint investigation teams were approved in July 2014 by an interdepartmental working group consisting of officials from Moldova's General Prosecutor's Office, Ministry of Internal Affairs, Customs Service and National Anti-Corruption Centre. On the implementation of the Council of Europe Convention on Action against Trafficking in Human Beings, a new action plan on preventing and combating trafficking in human beings (covering 2014-16) was approved. Despite every effort by the authorities, Moldova continued to be a source country for the trafficking of men, women and children.

Moldova eliminated criminal penalties for drug consumption. The proportion of drug-related crimes decreased and more focus was put on the recognition of new drugs.

The reform of the Ministry of Internal Affairs and its subordinated bodies (including the police and border police) was overall positive. However, no progress was made on reforming and re-organising the *Trupe de Carabinieri* (military police-type troops). Therefore, the status, responsibilities and the role for the *Carabinieri* within the reformed structure of the Ministry of Internal Affairs remained unclear and continued to overlap with those of police officers.

In January 2015 Moldova signed a memorandum of understanding on strengthening cooperation with Europol, which provides for the creation of a secure line of communications. In May, Moldova and Europol finalised the operational cooperation agreement which was signed in December. The ratification of this agreement would be welcome.

In June the European Judicial Training Network (EJTN) granted the status of observer to the National Institute of Justice of the Republic of Moldova.

6. TRANSPORT, ENERGY, ENVIRONMENT, CLIMATE CHANGE, INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT AND INNOVATION

A new Road **Transport** Code entered into force in September. The new code implemented the basic requirements of EU directives regarding access to the road transport market, including licensing of road transport companies and transport managers. The National Road Transport Agency was reorganised, most notably taking over regulatory responsibilities for heavy road vehicles and obtaining managerial and financial autonomy. This enabled the Agency to increase salaries. Experts reported that the number of overloaded trucks on Moldova's road had fallen, thanks to better regulation. Repairs continued on Moldova's main state highways using loans from international financial institutions. A total of 360 km of road is currently being repaired. Works have already been completed on three sections with a total length of 147 km and have been launched on four other sections with a total length of 121.6 km.

Although the Moldovan **fleet** remained on the blacklist of the Paris Memorandum of Understanding on Port State Control, necessary changes to legislation and operational practice have been identified with support from EU technical assistance. The port of Giurgiulești continued to operate normally despite a legal battle over ownership and financial claims.

The **aviation** authorities worked on implementing the EU-Moldova Common Aviation Area Agreement, using a three-year EU technical assistance program to support the transposition of the EU aviation *acquis*. However, the implementation process slowed due to problems of coordination resulting from 2013 amendments to the Civil Aviation Law which brought the Civil Aviation Authority under the political authority of the Prime Minister's office rather than the Ministry of Transport. While the EU has no position concerning to which body the civil aviation authority should be subordinated, this new configuration in Moldova is creating some problems of coordination.

In August, Moldova took its first step towards improving its **energy security** of supply with the inauguration of the Iași-Ungheni gas interconnector.

The Moldovan Government continued to focus on **integration with the EU single energy market** and addressing its main challenges in the energy sector, particularly security of supply, accumulated energy debts and low energy efficiency. Parliament approved amendments to Moldova's electricity law in March and amendments to the natural gas law in July, ensuring full transposition of the EU's Second Energy Package and the EU security of supply directives and regulations. An assessment of the resilience to possible Russian gas supply disruptions, according to the 'stress tests' initiated by the European Commission, was carried out and sent to the Energy Community Secretariat and the European Commission. This assessment contributed to the report on the stress tests published by the European Commission in October.

A new law on promoting **renewable energy** sources was developed and is in the final stage of adoption in parliament. This was aimed at establishing new incentives for such investments. Further secondary legislation would be needed for the new mechanisms to be fully functional. On **energy efficiency**, Moldova adopted laws on energy labelling and on the ecological design of energy products and improved the administrative capacity of its Energy Efficiency Agency and Energy Efficiency Fund. The Energy Efficiency Fund launched two new calls for

energy efficiency projects in the public and the private sector, and Moldova also became a full member of the multi-donor Eastern Europe Energy Efficiency and Environment Partnership to which the EU is a major contributor. The Ministry of Economy is currently implementing nine projects to promote **sustainable development** under the Greening Economies in the Eastern Neighbourhood Countries' programme.

Moldova continued to work with the World Bank on restructuring district heating and settling gas debts in this sector. An important step forward was taken in May with the adoption of new legislation on heating.

In December Moldova adopted its **climate change** adaptation strategy and action plan for 2020. In January, it submitted its third national communication under the United Nations Framework Convention on Climate Change (UNFCCC) and followed it up by publishing a research study to complement the 'Vulnerability and Adaptation' chapter of its third national communication. The study focused on the impact of climate change on Moldovan agriculture. It also published a range of awareness-raising booklets. A UNDP-led project was initiated to support the establishment of Moldovan's national adaptation planning process, according to UNFCCC guidelines, which is expected to be finalised by 2016. EU Expert support was successfully provided by the EU through the regional Clima East project. This was used in particular to strengthen the capacity of policy-makers to contribute to the 2015 Climate Agreement and to develop mitigation policies.

In May parliament adopted a law on environmental impact assessment, transposing an EU Directive on the assessment of the effects on the **environment** of certain public and private projects. The Ministry of Environment approved a new water supply and sanitation strategy for 2014-28 and an environmental strategy for 2014-23 setting out plans for the future development of the sector. 2014 also saw the drafting of a revised environmental protection law, which is a framework law providing for comprehensive environmental legislation in line with EU requirements. The consultative process for the draft law is expected to commence early in 2015. A National Action Plan for the implementation of the Association Agreement with the EU was approved in October. The Moldova North Water Private Public Partnership Project aiming at creating a regional integrated water supply system in Northern Moldova, with improved quality and efficiency of water and wastewater services will receive support from the EU Neighbourhood Investment Facility.

The 'Digital Moldova 2020 Strategy', which is the country's national **information society** development strategy, was implemented with the aim of ensuring systematic and predictable development based on the principles of the 'Digital Agenda for Europe'.

A new **Science and Innovation** Code was adopted. One of the main objectives was to stimulate innovation by fostering applied research and by encouraging closer cooperation between the academic and the research sectors. In March the Moldovan Academy of Sciences organised the official regional launch of the 'Horizon 2020' Programme, with the participation of representatives of the Eastern Partnership. During the preparatory phase, the Academy of Sciences, working on behalf of the Moldovan Government, drew up the necessary institutional framework so that Moldovan institutions can participate effectively in Horizon 2020 calls for tender. In July Moldova and the EU signed an agreement on Moldova's participation in the 'Horizon 2020' Programme. Moldova is the first Eastern Partnership country who signed up to the programme.

A collaboration agreement on **nuclear** forensics was renewed in 2014 between the EU Joint Research Centre (JRC) and the National Agency for Regulation of Nuclear and Radiological Activities of Moldova. JRC was asked by Moldova to provide forensics support in a criminal case involving trading in radioactive substances.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

Moldova continued its **educational** reform, with the approval and entry into force of the new Educational Code and its 2014-20 education development strategy ('Education 2020'). However, the lack of qualified teaching staff, inefficiencies and limited adaptation to the needs of the labour market remained a concern.

The National Agency for Quality Assurance in Professional Education was established and its interim coordination council was selected. The government approved a new regulation on doctoral studies that fully complies with the Bologna process, by bringing doctoral studies under the responsibility of the Ministry of Education. Moldova made some financial efforts to stimulate research in higher education institutions but this could make up for the lack of reform, with the administration and funding of research still being dealt with centrally at the Moldovan Academy of Sciences.

A budget support programme started for **vocational education and training**. Vocational education and training institutions were mapped as part of preparatory work to build up centres of excellence and reorganise the vocational education and training network. New occupational standards were developed and a pilot project on dual professional training was launched. However, the new law on professions is still pending approval by parliament.

Moldova participated in the **Tempus** programme with 18 on-going projects. 314 students and staff were selected in 2014 for mobility within partnerships supported by Erasmus Mundus and five students were selected for a joint master's degree. One application was selected for funding under the Marie Skłodowska-Curie actions (MSCA) under 'Horizon 2020'. 47 Moldovan schools participated in the **eTwinning plus** project. **Young people** and youth organisations benefited from **Erasmus +**, with 868 participants in mobility projects and 96 in the action for young people and decision-makers in the field of youth.

In January Moldova enacted its 'Culture 2020' national strategy for the development of **culture**. The strategy and its accompanying action plan for implementation are important steps towards modernising cultural policy.

Moldova started implementation of its national public **health** strategy for 2014-20. Health indicators have slightly improved, with Moldova seeing a reduction in death rates from disease and increased life expectancy at birth. Healthcare services continued to be restructured: primary healthcare was gradually being given more autonomy and hospitals were being regionalised, but progress was slow and faced obstacles, especially with regard to hospitals. Private sector participation in the health service increased, especially in diagnostic services. However, Moldova's healthcare system and public health services continued to be under pressure from the effects of brain drain, the early retirement of staff in some areas and problems with the mobility of doctors and nurses.

Health facility infrastructure has improved significantly. The new surgical block of the Republican Clinical Hospital in Chişinău was equipped with the most advanced medical devices and more than 150 health centres in rural areas were renovated and supplied with medical equipment. The development of a primary healthcare information system was being finalised. A national programme on the prevention and control of cardiovascular diseases and a national nutrition programme for 2014-20 were approved in September. Tobacco and alcohol control legislation were being revised, in combination with continued implementation of alcohol and tobacco awareness campaigns. In July, a package of anti-tobacco bills aligned with the WHO Framework Convention on Tobacco Control passed its first reading in parliament.

The overall vaccination rate was high, but was declining and there were wide regional variations. In Transnistria, immunisation and perinatal care programmes continued to be provided as part of the measures to build confidence between the two sides in the conflict.

Access to antiretroviral therapy for HIV and treatment for TB patients improved. Medicines legislation was brought into line with EU directives, and the capacities of the National Medicines and Medical Devices Agency were strengthened.

Moldova continued its technical cooperation with the European Centre for Disease Prevention and Control (ECDC) under an EU-funded regional project on preparatory measures to support the participation of ENP countries in ECDC activities. Moldova nominated a national correspondent for relations with the ECDC and the national correspondent carried out a short-term expert secondment there. Moldova participated actively in the first 'National ECDC Correspondent meeting' in May 2014 and also attended technical workshops on HIV/AIDS and vaccine-preventable diseases and the annual European scientific conference on applied intervention epidemiology.
