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signed by Mr Jordi AYET PUIGARNAU, Director

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HIGH REPRESENTATIVE
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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 (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 31 March 2017 and ahead of its next meeting of 3 May 2018.

The EU-Moldova Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA), entered into force on 1 July 2016. The revised Association Agenda, the main guiding document for the implementation of the Association Agreement, was agreed in August 2017. The Agenda sets 13 key priorities for reform actions for 2017–2019. These include strengthening independence of the judiciary, prevention of and fight against corruption, increasing energy security and energy efficiency, trade-related reforms and a number of other measures. The EU and Moldova continued a close political dialogue through the Association Council, the Association Committee, the Association Committee in Trade configuration and a number of sub-committees.

On 24 November 2017 the Eastern Partnership Summit in Brussels adopted a Declaration¹ highlighting achievements to date and focusing on the importance to deliver concrete results to citizens.

The EU Council in its Conclusions of 26 February 2018 on the Republic of Moldova reaffirmed its commitment to strengthening political association and economic integration between the European Union and the Republic of Moldova by working in close partnership on the basis of the Association Agreement that entered into force in July 2016. While acknowledging the steps already taken by Moldova, the Council highlighted that it is crucial that the reforms started in 2016 continue and are implemented. The Council also recalled that media freedom and pluralism are prerequisites for a democratic society and underlined that renewed efforts should be urgently dedicated to a more decisive fight against corruption with tangible results, as well as thorough, impartial and comprehensive investigations and prosecutions of all those involved in the massive banking fraud that was exposed in 2014. The Council also recalled that EU assistance to the Republic of Moldova is based on strict conditionality, and is linked to satisfactory progress in reforms. The Council also reiterated that the objective of its efforts to assist the Republic of Moldova is to achieve tangible improvements in the lives of the citizens of the Republic of Moldova.

In July 2017, the electoral Law was changed – from a proportional to a mixed electoral system. Meanwhile, the Council of Europe Venice Commission and the Organization for Security and Co-operation in Europe, Office for Democratic Institutions and Human Rights (OSCE/ODIHR) in its 17 June 2017 opinion had recommended that "*such a fundamental change, while a sovereign prerogative of the country, is not advisable at this time*".

Corruption still remains widespread, and independence of justice, law enforcement as well as national anti-corruption authorities need substantial improvement. During the reporting period, investigations on the massive banking fraud (13% of GDP), unveiled in 2014, have touched only upon a limited number of individuals and mainly in the private sector. Lost funds have not been recovered, and the full version of the follow-up report on the fraudulent

¹ <http://www.consilium.europa.eu/media/31758/final-statement-st14821en17.pdf>

schemes, outsourced to a private company, has not been published (only a summary was published in December 2017) raising doubts on the real will to prosecute this culprit of the fraud. The ownership of media outlets remains concentrated and the advertising market monopolised.

In the financial and business sectors, Moldova has made some progress in the implementation of reforms in line with the AA/DCFTA. Supported by the EU and international partners, such as the International Monetary Fund (IMF) and the World Bank, Moldova has continued to reform its banking sector. As a result, notably of these reforms, the IMF agreement remains on track. A reform of the central administration was initiated in July 2017 with the aim to improve service delivery to citizens.

The EU remains Moldova's main trade partner. In 2017 total EU-Moldova bilateral trade amounted to EUR 4 billion, which represents a 18% increase compared to the same period of the previous year. The EU share in Moldova's export has been increasing steadily since the entry into force of the AA/DCFTA, and it accounts for around 55% of Moldovan total trade.

To continue supporting reforms as well as the delivery of concrete results and benefits to the citizens of Moldova, the EU adopted the new multiannual programming, the Single Support Framework (SSF) for 2017-2020 in September 2017². It focuses on delivering tangible and visible results for citizens: supporting governance reforms, strengthening economic development, connectivity and people-to-people contacts as well as providing horizontal support to civil society, strategic communication and capacity development/institution building. To further promote visibility of EU assistance in the Eastern Partnership region, including Moldova, the Joint Staff Working Document "Eastern Partnership - 20 Deliverables for 2020" breaks down the key areas of the multiannual framework into a set of concrete deliverables to be achieved by 2020. In the context of the multiannual framework and to support the achievement of the milestones and deliverables set out in the "20 Deliverables for 2020" document, the Annual Action Programme (AAP) has been adopted for 2017 (EUR 79 million) providing support to civil society, a more transparent, efficient, competitive and resilient economic environment, water supply and sanitation, energy, and strategic communication and media.

A Decision to provide EUR 100 million of EU Macro-Financial Assistance (MFA) to Moldova (EUR 40 million of grants and EUR 60 million of loans) was adopted by the European Parliament and the Council on 13 September 2017³, and it entered into force on 23 September 2017. The disbursement of the assistance in 2018 depends on the implementation of a number of policy conditions, along with the fulfilment of the political preconditions and a satisfactory track record under the programme with the IMF.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

In July 2017, Moldova changed its **electoral system** from proportional to mixed proportional-uninominal. The Venice Commission and the Office for Democratic Institutions and Human Rights of the OSCE (OSCE/ODIHR), in a joint opinion⁴, noted in particular a lack of consensus on the reform, and based on specific concerns identified (e.g. risk of

² https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/single_support_framework_2017-2020.pdf

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017D1565&from=EN>

⁴ Venice Commission Opinion No. 884/2017; ODIHR Opinion Nr. ELE-MDA/308/2017. 19 June 2017.

influence taking at constituency level; high thresholds; vague criteria for the definition of constituencies), indicated that "*such a fundamental change, while a sovereign prerogative of the country, is not advisable at this time*". Concerns regarding a level playing field for political parties are also related to funding, the use of administrative resources for political purposes and access to media, as also indicated in the OSCE/ODIHR joint opinion. The Venice Commission and the OSCE/ODIHR, in another joint opinion⁵ published in December 2017, raised aspects related to necessary improvements of the legal framework on funding of political parties and campaigns, and especially on strengthening implementation and sanctions mechanisms. The use of administrative resources was pointed out by non-governmental organisations (NGOs) as an issue during the failed referendum to recall the mayor of Chisinau and the by-elections on 19 November 2017. The media landscape remains characterised by concentration of media ownership and monopolisation of the advertising market. Moldova's ranking in the Reporters without Border World Press Freedom Index fell further by four positions in 2017 to 80th place, from 76th in 2016.

In March 2017, the Audiovisual Code was amended requiring broadcasters to increase content produced locally and linking it with the possibility to use advertising. Smaller and independent media outlets have difficulties to comply with these new requirements. In December 2017, the Parliament adopted a Law on securing the information space. Since the President refused to promulgate the Law, he was considered to be in temporary incapacity by the Constitutional Court on 5 January 2018. The new Law was then promulgated in January 2018 by the Speaker of the Parliament acting as interim-President and entered into force in February 2018. It limits the retransmission of news, politico-military and documentary shows from the Russian Federation. A draft new Audiovisual Code that transposes the European Directive for Audiovisual Services has been developed with inter alia EU support and finalised in January 2018. The draft has been submitted to public consultation. The adoption of a new audiovisual code has been long awaited and repeatedly recommended by the international partners in the past years.

Public Administration Reform efforts continued. The reform of the central administration was initiated and is to continue with the reorganisation of public agencies and State Owned Enterprises (SOEs). A new Law on Government was adopted in July 2017, followed by the adoption of secondary legislation in the second half of 2017. They aimed at: decreasing the number of ministries, reviewing functions and organisational structures, downsizing staff, increasing salaries of public servants and, in general, improving delineation between political and administrative functions. The number of ministries has been reduced from 16 to 9. A Governmental reshuffle, initiated in December 2017, affected seven from the 12 positions in the Government and included the appointment of a new Deputy Prime Minister for European Integration. Due to the opposition of the President, the procedure of declaring temporary incapacity of the President was used again and the new members of Government took the oath on 10 January in front of the Speaker of the Parliament acting as interim-President.

On **Public Financial Management**, medium term budget planning was enhanced by aligning the budgetary framework with international practices, such as strengthening the macro-economic analysis. Improvements took place related to public accounting, debt management (including development of state securities market) and capital investment. Reforms in revenues administration continued and budget transparency improved through Citizens'

⁵ Venice Commission Opinion No. 901/2017; ODIHR Opinion-Nr.: POLIT-MDA/314/2017. 11 December 2017.

budget⁶ and regular reporting. In 2017, Moldova enrolled for the first time in the International Open Budget Survey⁷. According to the results released in January 2018, Moldova scored 58th out of 100 on budget transparency, so substantially higher than the global average score of 42, which is a rather positive result. Nonetheless, Moldova should further improve public participation in the formulation and monitoring of the annual budget. It should also strengthen the parliamentary oversight of the budget execution by creating the parliamentary Public Accounts Committee in charge of carrying out public hearing of the Court of Accounts reports. A new Law on the Court of Accounts strengthening financial, operational and functional independence of the supreme audit institution was adopted in December 2017 and promulgated in January 2018.

Lack of trust in the justice system and concerns in the area of **human rights and fundamental freedoms** have been raised in a number of cases, especially on prosecution and arrests of political representatives. One new case of prosecution against a lawyer was registered in 2017. One judge was dismissed on the basis of an opinion given by the intelligence services. However, on 5 December 2017, the Constitutional Court declared the legal provision on the verification of judges by the Information and Security Service to be unconstitutional. Despite this decision of the Constitutional Court, on 6 February 2018 the Superior Council of Magistracy rejected an appeal of the judge against her dismissal. The wide-spread use of pre-trial detention⁸ continued and the death of a detainee suffering from mental disorders while in state custody revealed systemic weaknesses in the system. Currently only 3 of the 17 functioning penitentiary institutions meet the minimum standards of detention. In 2017 the European Court of Human Rights issued 16 decisions against Moldova, of which eight are related to violation of the prohibition of torture and the right to liberty and security⁹.

A new Human Rights Action Plan 2018-2022 was adopted by the Government on 7 November 2017, replacing the one which expired in 2014. Its adoption by the Parliament is pending. In May 2017, in line with the recommendations made by the Venice Commission, the Parliament supplemented the Constitution with provisions on an Ombudsman's Office to guarantee the existence of the institution and its core activities. In June 2017, a new Law recognising the legal capacity of persons with disabilities was adopted, bringing the legislation in line with the United Nations Convention on the Rights of Persons with Disabilities. The Action Plan for the Implementation of the Strategy on Strengthening of Interethnic Relations 2017-2027 was adopted by the Government on 15 November 2017, with public budget foreseen for the start of its implementation (MDL 4.7 million, i.e. more than EUR 200 000).

In February 2017, Moldova signed the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence. Its ratification is pending. In April 2017, the Government approved a new National Gender Equality Strategy 2017-2021; the focus needs to be now placed on its implementation (including in the electoral context), adequate financing and effective inter-agency cooperation.

⁶ Citizens' Budget is a document designed to present key public finance information to a general audience, with accessible language and visual elements to help non-specialist readers understand the information.

⁷ <https://www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/>

⁸ According to the Legal Resource Center of Moldova, the rate of allowed arrest requests in 2016 was of 84%, with an increasing rate since 2011.

⁹ According to the Legal Resource Center of Moldova another 1348 applications against Moldova are awaiting ECHR judgement <http://crjm.org/wp-content/uploads/2018/01/CRJM-NA-Activitatea-CtEDO-2017.pdf>

The 2016-2020 Action Plan for the Child Protection Strategy is not fully resourced, both in terms of funding and human resources, and is not fully implemented due to the need for further development of secondary legislation and institutional mechanisms, such as a mechanism for recruitment of child protection social assistants at the local administration level. The need to finalise the deinstitutionalization reform became apparent with several new cases of children's abuse in institutions, which were made public in 2017.

As regards cooperation between **civil society organisations** (CSOs) and public authorities, in some cases insufficient time was dedicated to public consultation (e.g. ten days in the case of the Human Rights Action Plan). The National Participation Council, which enables civil society to participate in decision making, re-started its activities in 2017. However, recognised civil society activists have indicated that its composition cannot be considered as fully representative. The first year of implementation of the "2% Law" (which allows citizens to direct 2% of their income tax to CSOs) has shown the interest from the population to support civil society organisations (over 20,000 people directed about MDL 2,8 million to about 300 beneficiary organisations). The work on a modernised law on CSOs was stopped in September 2017 following negative reactions from a group of 26 leading CSOs to an amendment introduced at the level of the Ministry of Justice, aiming at prohibiting foreign funding for CSOs with political activity. In January 2018 the law was republished for public consultation by the Ministry of Justice, without the articles concerning foreign funding. A CSOs Strategy and Action Plan for 2018-2020 were prepared in a working group with participation of CSOs and registered in the Parliament in December 2017.

2.2. Foreign and security policy

Moldova continued cooperating with the EU on international issues. In 2017, Moldova aligned itself with 34 out of 49 EU declarations and Council decisions that it was invited to support (69%), as compared to 33 out of 47 (71%) in the previous year. An agreement between the EU and Moldova on security procedures for exchanging and protecting classified information was signed on 31 March 2017, and it entered into force on 1 January 2018. Participation of Moldova in EU Common Security and Defence Policy (CSDP) missions and operations continued, with one person taking part in the EU Training Mission (EUTM) to Mali until April 2017.

In May 2017, a Working Group was created under the coordination of the Ministry of Defence to prepare the National Action Plan on the implementation of United Nations Security Council Resolution (UNSCR) 1325 and related Resolutions on women in peace and security. The Plan was finalised in November 2017 and is currently under review at Government level.

In June 2017 the President of Moldova withdrew the draft **National Security Strategy**, prepared in 2016 with assistance from international partners, and announced that the drafting process of the new strategy would be restarted. This was motivated by changes in the security environment and for lack of correspondence to the national interests, including the neutrality status of Moldova. In December 2017, a draft Defence Strategy and Action Plan 2017-2021 were prepared by the Government and sent to the President.

Under the Austrian OSCE Chairmanship in Office (2017), several protocols and decisions were signed by Chisinau and Tiraspol and started to be partially implemented. There has been progress in particular on the functioning of Latin script schools, access to farmlands in the Dubăsari area, apostillation of diplomas, telecommunications and the opening of Gura Bicului– Bychok bridge. The opening of the bridge (part of pan-European transportation

corridor IX) in November 2017 significantly increases opportunities for the movement of people and goods, transport and business activities on both banks of the Nistru River and in the wider region. The opening of the bridge and signature of four protocols (on Latin Script Schools, access to farmlands, apostillation of Transnistrian university diplomas and telecommunications) paved the way to a new round of the "5+2" talks that took place in Vienna on 27-28 November 2017.

With support of the European Union's Border Assistance Mission to Moldova and Ukraine (EUBAM), joint Ukraine-Moldova customs and border controls for the international border crossing point at Kuchurhan were established in July 2017. This allows for the gradual introduction of registering or de-registering people when entering or leaving the Republic of Moldova via Kuchurhan as well as clearance of exports/re-exports directly at the border crossing point.

A National Strategy and Action Plan on weapons of mass destruction (WMD) and Chemical, Biological, Radiological and Nuclear (CBRN) for the period 2018-2025 were prepared and presented to the Government in December 2017.

2.3 Justice, Freedom and Security

The Ministry of Justice coordinated the drafting of a **new justice sector reform strategy** 2018-2024, albeit without proper consultation with the stakeholders. In January 2018, the Ministry of Justice presented a concept paper on justice reform priorities for 2018 intended to fill in the gap before the adoption of the new strategy. As regards the transparency and efficiency of the judicial process, Moldova ranked 132 out of 137 countries on judicial independence in the Global Competitiveness report 2017-2018 of the World Economic Forum (WEF)¹⁰. In the area of **independence of the judiciary** efforts are still needed in order to promote a transparent and merit-based selection procedure for judges and to improve transparency, including of the Superior Council of Magistracy (SCM). The Parliament did not adopt constitutional amendments on the Judiciary and on the **Constitutional Court** meant to increase its transparency, accountability and independence, as recommended by the EU funded peer review mission of 2016. The process needed to amend the Constitution in relation to judiciary system was restarted and in January 2018 a new Law was registered in the Parliament.

The Superior Council of **Prosecutors** was not yet fully functional in 2017 due to the absence of an approved budget and staff. CSOs and lawyers' organisations continued raising concerns about the high number of pre-trial arrests and increasing number of approvals by judges for the wiretapping of phone conversations.

In the area of the **prevention and fight against corruption, fraud and conflict of interest** a new National Integrity and **Anti-Corruption** Strategy 2017-2020 came into force on 31 May 2017. A step in the implementation of the Strategy was taken by the elaboration of sectorial anti-corruption plans: by January 2018 seven out of nine sectorial anti-corruption plans were endorsed by the National Anti-Corruption Centre. Government approval on all the sectorial anti-corruption plans is pending the elaboration of the last two. A new **Law on preventing and combating money laundering and terrorism financing** in line with the European legislation currently in force was adopted in December 2017. The Law envisages creation of

¹⁰ Moldova ranked 133 out of 138 in the 2016-2017 WEF report

a specialised agency under the Government with analytical and interagency coordination functions in the area of money laundering; secondary legislation needs to be adopted in 2018¹¹.

Regarding **asset recovery and the investigation of the banking fraud**, a new Law on the Agency for the Recovery of **Criminal Assets** (CARA) came into force in May 2017, allowing the Agency to get involved in a number of crime types and introducing parallel financial investigations. On 8 December 2017, the Parliament approved the law extending the competencies of the Agency for Recovery of Criminal Assets to such criminal offences like trafficking of organs and human beings, torture, inhuman and degrading treatment, forced labour, illegal circulation of drugs, and others. The Law was published and entered into force on 12 January 2018. There is a need to ensure that all cases of fraud, including those that affected the banking system of the Republic of Moldova in 2012-2014, are subject to a thorough and impartial investigation, also with a view to recovering the diverted funds and to bringing those responsible to justice.

There is a delay of at least one year in transforming the previous National Integrity Commission into the **National Integrity Authority**, after the new Law entered into force on 1 August 2016. The management of the institution has been appointed only at the end of December 2017. Integrity inspectors still need to be selected and internal regulations adopted. The system allowing for transmitting electronic declarations of assets and conflict of interests is largely in place but there is a backlog of around 70 000 declarations of assets and conflict of interests not yet verified.

The June 2016 draft law on increasing the financial sanctions for **corruption** cases to guarantee that the criminal and administrative sanctions applicable are proportionate and dissuasive is still under discussion in the Parliament. The law on **whistle-blower** protection has not yet been adopted.

Several authorities deal with the issue of **trafficking in human beings**. Until 2016, also the General Prosecutor's Office used to have a specialised Anti-Trafficking Office, which was abolished as part of the Prosecutor's Office reorganisation. As a result, the anti-trafficking capacity has been integrated into the newly established **Prosecutor's Office for Combatting Organised Crime and Special Cases** (PGCOCS). Moldova has been downgraded from "Tier 2" level to the so-called "Tier 2 Watch List" level in the 2017 Trafficking in Persons (TiP) Report of the US Department of State, which looks annually into the situation of trafficking in human beings worldwide. The full operational capacity of the PGCOCS is still to be achieved after the Regulation on its functioning was approved in February 2017. The new 2018-2020 **National Strategy for preventing and combatting trafficking in human beings** has not been approved yet. The Strategy in place, which was covering the period up to 2016, was extended to cover 2017. However, a new strategy needs to be approved in order to avoid implementation gaps. A positive highlight in 2017 is the ratification of the Council of Europe Convention against Trafficking in Human Organs.

The Bureau for **Migration and Asylum** and other relevant authorities operate on the basis of the 2016 Action Plan on implementing the Migration and Asylum Strategy 2011-2020. The National Commission for Coordinating Migration Process Activities has been convened sporadically since its establishment in 2010. A 2017-2020 Action Plan for the reintegration of returning Moldovans was approved in September 2017. In October 2017, the Bureau for

¹¹ Anti-corruption and money laundering is also referred to in the first report under the visa suspension mechanism (see section "Mobility and People-to-People Contacts").

Migration and Asylum inaugurated its regional office North, which integrates one-stop-shop services for documenting foreigners, integration services and the inland detection function (the capacity to detect and apprehend irregular migrants).

The 4th edition of the Extended **Migration Profile** (2009-2014) was published in July 2017 and the 5th edition (2010-2015) was produced in November 2017. The area of border management is mainly governed by the National Strategy of Integrated **Border Management** (IBM) 2015-2017. In 2017, the National IBM Council developed a successor strategy for the period of 2018-2020. The new strategy should be approved by the Government before the expiry of the old one. As of May 2017, a face recognition system became operational at a number of border crossing points. The Border Police also started introducing body-worn cameras as of early 2017, as anti-corruption and personal protection measures. A governmental Agreement was signed in October 2017 with Ukraine envisaging opening 12 jointly operated border crossing points and joint patrolling along the entire common border (including Transnistrian segment). In December 2017, a temporary station of Moldova-Ukraine joint customs control opened at the checkpoint Palanca-Mayaki-Udobno. The project of this jointly operated border crossing point is supported by the EU.

With the support of the EU funded sector reform performance contract on **police**, some actions were taken on the de-centralisation of powers within the police and on the nationwide community policing concept, which was formally adopted by the Government on 31 January 2018.

In the area of **cybercrime and cybersecurity**, Moldova continues to implement the National Programme on Cyber Security 2016-2020.

In the field of **data protection**, a Twinning project was launched in October 2017 with the aim to bring Moldova's national legislation closer to the EU's legal framework and standards.

3. Economic development and market opportunities

3.1 Economic development

Moldova's economy remained affected by economic shocks from previous years. In 2016, the **GDP grew by 4.3%** of which the agricultural sector contributed 2.2 percentage points. Moldova's economy remained vulnerable to other internal and external factors. The modest economic performance was also affected by the **difficult situation in the banking sector**.

During the reporting period the National Bank of Moldova (NBM) continued to work on two streams to improve the soundness of the banking sector in Moldova: 1) solving current problems in banking sector such as involvement in money laundering, related-party exposures and non-transparent shareholders; 2) creating a modern and efficient regulatory and supervisory framework for the future in line with international (EU) standards (Basel III).

In this context Moldova and the **International Monetary Fund** have continued the implementation of the IMF Programme. The agreement with the IMF on the economic reform programme, supported by a three-year (Extended Credit Facility (ECF)/Extended Fund Facility (EFF)) arrangement, was approved by the IMF board on 7 November 2016. Access under this arrangement is at 75% of Moldova's quota in the Fund (USD 178.7 million). The first IMF programme review, completed on 11 April 2017, made available USD 21 million, which brought the total disbursement under the programme to USD 42 million.

On 7 November 2017, the IMF reached staff-level agreement on the second review under the EFF/ECF arrangement. The programme remains broadly on track with performance criteria met by significant margins and many structural benchmarks implemented, although with a number of delays. The IMF Board approved the second review at the end of December 2017. It noted that Moldova had enjoyed a period of relative economic and financial stability over the last year and the outlook for the country remained favourable. However, significant risks remained, including: political uncertainty given upcoming parliamentary elections, macro-financial risks related to delays in decisively cleansing the financial sector and risks stemming from the challenge of maintaining the reform momentum for an extended period needed to accelerate growth and reduce poverty. Per the terms of the IMF agreement USD 21 million are scheduled to be disbursed upon Board approval of the above mentioned review.

An international private consortium has been investigating the recent banking fraud. The investigation covers the period 2012-2014. The second investigation report was not fully published (only a summary was released in December 2017). In November 2017, the consortium presented an updated Asset Recovery Strategy, however this has not been approved yet. Authorities are discussing procedures for initiating legal actions in multiple jurisdictions.

The **business environment and investment climate** remained affected by corruption and inconsistent policies. The Law simplifying the system of inspectorates and various inspection bodies has been adopted to increase efficiency and reduce regulatory burden, however relevant secondary legislation aimed to guarantee its implementation is not yet in place. Additional legislation was proposed envisaging also redistribution of competences among inspection, investigation and prosecution bodies in the economic field and broad exoneration of criminal liability/punishment. Following public criticism and objections of international partners, its immediate adoption was reconsidered by the Government. Access to finance, in particular for small and medium-size enterprises (SMEs), remains difficult. Moldova is participating in the EU programmes for Research and Innovation (Horizon 2020) and the competitiveness of SMEs (COSME), allowing SMEs to develop commercial partnerships and increase their innovation capacity. Additional efforts are needed in order to strengthen market economy and competition.

Moldova is part of a two-year pilot project launched by the European Commission in 2016 on "Smart specialisation and organisational development in enlargement and Horizon 2020 associated countries"¹². In 2017 the first phase, consisting in the mapping of the economic, scientific and innovation potential in the Republic of Moldova, was finalised.

In the area of **agriculture and rural development**, with the support of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), progress has been made in implementing the National Strategy for Agriculture and Rural Development and the General Law on Principles of subsidising agriculture producers. There has been substantial progress particularly in supporting on farm-investment contributing to enhanced competitiveness of agri-food sector. Further efforts are needed to support the diversification of economic activities in rural areas aiming at improving living conditions in the rural areas, as well as to improve sustainable use of land and water resources.

The National Strategy for **Regional Development** 2016-2020 is under implementation. Projects for water and sanitation, tourism, regional and local roads, energy efficiency,

¹² <http://s3platform.jrc.ec.europa.eu/s3-beyond-eu>

business infrastructure and solid waste management were approved in 2017. These are financed by the National Fund for Regional Development.

Moldova is playing an active role as a full partner, together with nine Member States and four other non-EU countries, in the **EU macro-regional strategy for the Danube Region**, in particular as co-coordinator of the Priority Area on "People and Skills". The appointment of a new National Coordinator for the Strategy is, however, still pending.

The institutional capacity for policy development, monitoring and evaluation in the newly established Ministry of Agriculture, Regional Development and Environment (MARDE) requires strengthening to further improve the quality and impact of programming, particularly as gradual alignment with EU systems and procedures takes place. MARDE is in charge of implementing over 60% of all Association Agreement commitments and adequate staffing is crucial, as well as a shared environmental/territorial information system that needs to be established to enable adequate policy decisions, reporting and public access to information. As a result of the general public administration reform, the Ministry of Regional Development and Construction, the Ministry of Environment and the Ministry of Agriculture and Food Industry merged into one with 40% staff reduction. The four State Secretaries in the new Ministry were appointed, while staff appointment to different departments of the Ministry is being finalised.

The activity and **employment** rates remained at 42.6% and 40.8% respectively (2016). Official unemployment decreased to 4.2% of the active population, but youth unemployment remains twice as high. Low official unemployment reflects low **labour** market participation, informal work as well as migration. Employment in Moldova is largely based on agriculture, low productivity sectors and crafts. Approximately one third of the working population is employed in the informal economy (36.3%). Around a fifth of the labor force works abroad (around 800 000 citizens). The **National Employment Strategy** 2017-2021 and its Annual Action Plan for 2017 have been approved by the Government. The Action Plan is in line with the four priorities of the strategy.

According to the authorities, 10 out of 25 EU directives in the area of **health and safety at work** have been transposed or are in the process of being transposed into domestic legislation with one directive transposed in the last year.

The mandate of the labour inspectorate to perform its tasks is not in line with the International Labour Organisation (ILO) standards. A series of legal acts were adopted in 2017, which, together with a number of acts adopted the previous year, create a new mechanism on State Labour Inspectorate competences, which recognises the existing Inspectorate as a coordinating authority at national level in the field of labour relations and health and safety at work. However, the Law also withdraws from the State Labour Inspectorate the control functions in the field of security and health at work and gives them to ten control entities. The Labour Code was modified through amendments included in three Laws, which were adopted in July 2017 and promulgated in August and October 2017. In the same period, amendments to the Laws on labour migration and on foreigners' regime aiming at facilitating employment of foreign citizens, were adopted and promulgated. A Law on Sectoral Committees, establishing their legal status, was promulgated in December 2017. The changes to the labour legislation are expected to bring more flexibility to better match the needs of the labour market. In order to strengthen social partnership at national and local level, amendments to the Law on organisation and functioning of the National Commission for Consultations and Collective Bargaining (NCCCB) were developed but not yet adopted. As a result of the recent re-organisation of central administration, the Ministry of Health, Labour and Social Protection lost the entire staff of its Labour Relations and Social

Partnership Department. Responsibilities for labour legislation including legal approximation to EU law have not been re-allocated yet.

The new Law on the reform of the **pensions system** entered into force on 1 January 2017. The Law, implemented from April 2017, provides a new calculation mechanism for pensions as well as an increasing retirement age for men and women to equate at 63 years with a transitory period of ten years (currently 57 years for women and 62 years for men). Procurement of services from private providers (including civil society organizations) still lacks a clear working mechanism for **social service provision**. This should be further developed, communicated and implemented to ensure quality of social services through competition as well as civil society sustainability.

Restructuring of public **health** services is well under way, including a formal decision to establish a National Public Health Agency with wider public health scope. The reforms have the aim to strengthen public health functions including surveillance, preparedness and response to health threats in line with the EU acquis and international commitments. The current Healthcare System Development Strategy 2008-2017 is being evaluated and the results of this process will be factored in the new strategy development cycle. The Law on tobacco, adopted in 2016, was amended introducing heat-not-burn tobacco products. Also, a regulation on health warnings and labelling tobacco products was approved by the Government. Amendments to the Law on advertisement, banning alcohol commercials, were approved in the first reading in the Parliament. An updated concept of hospital regionalisation plan has been presented; however, no progress has been reported on the implementation of the hospital reform. Moldova participates in the EU Health Programme 2014-2020. The opportunities offered by this Programme could be further uptaken by disseminating information about the Programme and facilitating active participation of stakeholders in the joint actions and projects.

3.2 Trade and trade-related matters

The economic growth registered in 2016-2017 had a positive impact on **trade**. Moldova's trade grew, in particular with the EU. The EU remains Moldova's main trading partner, accounting for 55% of its total trade (66% of total exports and 49% of Moldova's total imports)¹³. In 2017, bilateral EU-Moldova trade increased by 18% compared to the same period in the previous year. Moldova's export to the EU grew by over 23% in that period. Exports of plums and table grapes exceeded the zero-duty tariff rate quotas (TRQ) agreed in the DCFTA, and exports of cereals and processed cereals significantly exceeded the volumes established as triggers in the anti-circumvention mechanism foreseen by the DCFTA.

On **technical barriers to trade**, as a follow up of earlier progress, Moldova adopted secondary horizontal legislation in September 2017. However, there are still some discrepancies with regard to specific product legislation. The administrative capacity of the Food Safety Agency in verifying animal health and animal welfare rules has been strengthened. As regards **sanitary and phytosanitary standards** (SPS), further approximation and implementation of national legislation has yet to happen. The SPS strategy was adopted by the Government in December 2017 and is currently under implementation. Laboratory diagnostic capacity for monitoring and surveillance of animal diseases as part of official controls remained weak and did not register significant improvement.

¹³ Data refer to 2016 and the first nine months of 2017

On **customs and trade facilitation** the Government approved amendments to customs regulations to align with the EU Authorised Economic Operator (AEO) requirements and Approved Exporter conditions, which entered into force in July 2017. The Trade Facilitation Action Plan for the period 2018-2020 was approved in December 2017. The new Customs Code has been developed for approximation with the provisions of the Union Customs Code and presented for public consultations. There are still problems with customs valuation of goods and selective recognition of preferential certificates issued by the EU. Preparatory work on accession to the Convention on a common transit is in progress.

Moldova's progress in the field of **services** and establishment still does not reflect market requirements. Delays were noted in reflecting the DCFTA commitments in these areas in the domestic legislation. This affected particularly amendments to related laws on harmonisation of concepts such as subsidiary, branch and representative office, in order to ensure national treatment and most favoured nation (MFN) clause. The Parliament approved amendments to the Law on **Electronic Commerce** partially transposing the EU acquis.

Structural reforms in the **financial sector** are being pursued. A new Law on Banking Activity partly upgrading the supervisory framework to international Basel III standards was approved by the Parliament. Efforts in enhancing governance, shareholder transparency and the financial shape of banks should be sustained. Similar reforms are being initiated in insurance and non-bank credit sectors. The **Competition** Council made progress in regulating state aid according to the sectoral regulations adopted for various forms of aid. The factual independence of the Council and obstacles to competition remain to be addressed.

Legislation on the protection of **intellectual property rights** (IPR) has been improved, but issues with regards to Geographical Indications (GIs) remain to be addressed.

Reforms in **public procurement** were pursued according to the National Reform Plan for Public Procurement for 2016-2020, including approximation of the legal framework to the EU acquis, the reform of the Public Procurement Agency and progressive introduction of e-procurement. A new, independent Public Procurement review body (Complaint Settlement Agency) was established under the Parliament, and it started to operate in 2017 with some delays. The appointment of the management of the Agency was tarnished by conflicts of interest and lacked transparency.

The Subcommittee on **trade and sustainable development** met regularly and discussed the latest developments in the field of trade, labour and environment relevant for the implementation of the Chapter. As a result, the Parties have adopted three joint declarations and have agreed on a list of priority issues in the field of labour and environment to focus dialogue and cooperation in the coming years. The participation of civil society in the monitoring of the implementation of the Trade and Sustainable Development (TSD) chapter is ensured through the domestic advisory groups created by each Party and the annual Joint Civil Society Dialogue forum.

Changes in the competences of the labour inspection might bear negatively on Moldova's effective implementation of ILO's labour standards.

4. Connectivity, Energy Efficiency, Climate Action, Environment and Civil Protection

In the area of **energy security and energy efficiency** the transposition of the 3rd Energy Package was advanced by the promulgation of the Energy Law by the President of Moldova in October 2017. The Law provides more power and independence to the Energy Regulator.

Unbundling of gas and electricity transmission and distribution from production remains to be completed.

In March 2017, the yearly **electricity** acquisition process was organised with several improvements compared to the past years (procurement guidelines agreed between the Energy Community Secretariat and the Ministry of Economy were shared with energy companies; the procurement could be observed by external observers). However, in June 2017, changes were introduced to the supply contract of the winning company Energocom leading to strong reactions from international observers and civil society. The construction of the strategic Ungheni-Chisinau gas pipeline is delayed given that the transmission system operator Vestmoldtransgas, created to manage the Iasi-Ungheni gas network and also to provide gas services in Moldova, has been privatised. As for the construction of an electricity interconnection between Moldova and Romania, the EU will provide grant support worth EUR 40 million, and loan agreements were signed with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) in December 2017 (but not yet ratified by Moldova). The revised National Renewable Energy Action Plan for the period 2013-2020 has not yet been approved. The new Law on energy efficiency has not been approved and there are delays in adopting key secondary legislation in the area of renewable energy and energy efficiency.

Regarding **transport**, the Government approved the Roadmap for the Restructuring of the Moldovan Railways for the years 2018-2021. The merchant fleet sailing under the Moldovan flag remains on the black list of the Paris Memorandum of Understanding on Port State Control. The Road Rehabilitation Programme in the country suffers from important delays, also due to lack of capacity of the State Road Administration.

In the area of **environment and climate action** Moldova continues to make gradual progress in the approximation of EU **environmental** legislation. Framework Laws on waste management and strategic environmental assessment, as well as the regulation on access to environmental information were adopted in 2017. A road map for the approximation of EU legislation related to ambient air quality was released in November 2017. Amendments to the Laws on plant kingdom and ecological networks were published in September 2017. In view of the creation of MARDE, the separation of institutional functions as well as clear division of functions are critical for the reform of the environmental institutions and the proper administrative capacity to implement environment and climate chapters of the Association Agreement.

The Paris Agreement on **climate change** was ratified by the Parliament in May 2017. A Low Emissions Development Strategy until 2030 was approved by the Government in December 2016 and its implementation started in 2017. The 2015-2020 Climate Change Adaptation (CCA) Strategy is being implemented. Climate change in all areas of policy making remains a challenge for Moldova as there is still no permanent institutional framework for the inter-sectoral coordination of climate action.

As regards **civil protection**, Moldova has a 24/7 functioning Emergency Management Centre which is linked with the EU's Emergency Response Coordination Centre and the UN-EU Global Disaster Alert and Coordination System. In June 2017, Moldova approved a Governmental Regulation on Host Nation Support (HNS), and in November 2017, HNS Standard Operating Procedures. In March-September 2017, it also hosted a large-scale simulation exercise "EU MOLDEX" with response teams coming from the other five Partner Countries, three EU Member States and the EU Civil Protection Team to practice operational coordination and host nation capacity in case of a disaster requiring international assistance. Moldova participated in a series of other national and international exercises during 2017 as

well as training courses organised under the European Union Civil Protection Mechanism and the Prevention, Preparedness and Response to natural and man-made Disasters (PPRD) East 2 Programme, the Eastern Partnership Flagship Initiative. Public information campaigns and alerts are continuously being carried out on risks related to floods, fire, drownings, natural disasters and hazards.

5. Mobility and People to People Contacts

Since the introduction of the **visa-free regime** in April 2014, more than 1 million Moldovan citizens with a biometric passport have benefitted from it so far. In March 2017, the revised visa suspension mechanism entered into force, introducing an obligation for the Commission to monitor the continuous fulfilment of the visa liberalisation requirements in countries that have completed a Visa Liberalisation Dialogue (including Moldova) and to yearly report on this. The first report, adopted on 20 December 2017, assessed that Moldova continues to fulfil the visa liberalisation benchmarks, but that the fulfilment of the anti-corruption and anti-money laundering benchmarks could be endangered unless immediate actions are taken. In October 2017, the Joint Readmission Committee assessed the readmission cooperation with Moldova as generally positive.

The latest **Mobility Partnership** Local Cooperation Platform meeting took place in Chisinau on 22 June 2017. The 10th Mobility Partnership high level meeting took place in Brussels on 15 December 2017. The EU-Moldova Mobility Partnership, which was one of the first to be signed, continues to be further developed with new agreements with Member States under preparation.

The 2014 **Education** Code and the Education Development Strategy for 2014-2020 provide a basis for new policies in the education sector, but their implementation remained incomplete in 2017, and secondary legislation needs to be prepared and adopted. The enrolment rate in primary schools in Moldova continues to decrease, contrary to global trends¹⁴. The Programme for International Student Assessment (PISA) 2015 results show progress, but they reflect a performance level still below the society needs. Some measures were taken to increase the attractiveness of the teaching career, salaries were increased by an average of 10% and new teachers received an increased hiring bonus. To provide basic principles for aligning the national qualifications system with the European one, the government adopted in November 2017 the National Qualifications Framework of Moldova, structured on eight levels, covering general, technical and higher education. As concerns the implementation of the **Vocational Education and Training (VET)** Strategy 2013-2020, the foundations of a modern and effective VET system were built. There has been good progress in implementing the VET Restructuring Plan. However, some pending important issues remain to be addressed, including strengthening significantly the capacities of the Republican Center for the Development of Vocational Education VET and ensuring the functioning of the Sectoral Committees.

The reform of the **Research and Innovation** system progressed. Based on the recommendation of an EU peer-review, a revised Law was promulgated in October 2017 and it entered into force in February 2018. It relates to the modernisation and competitiveness of the research and innovation governance and addresses the allocation of funding in the attempt to make it more independent, transparent and accountable. The research is now fully under

¹⁴ Source: UNESCO Institute for Statistics

the responsibility of the Ministry of Education, Culture and Research with a national agency for implementation of the research and innovation policy under creation.

In the **culture** sector Moldova's participation to the Creative Europe Programme did not increase in 2017 (only one project supported in three years). Moldova renounced the EU grant for the 2017 Creative Europe Desk, due to the impossibility of the Moldovan Ministry to co-support the expenditures programmed for the Desk. Following the restructuring of the Government during the summer 2017, the Ministry of Culture was merged with the new Ministry of Education, Culture and Research. Cultural cooperation, including the mobility of arts and artists, is mostly covered by bilateral relations with EU Member States.

The National Strategy of **Youth** Sector Development 2020 is being implemented despite limited direct funding for its actions plan. The National Programme for Economic Empowerment of Youth (PNAET) was extended to 2017. The age limit for the potential beneficiaries of the programme was lifted from 30 to 35 years. Pilot activities targeting young creators and innovators were launched, but the share of participants under 18 is decreasing.

6. Financial assistance

In 2017, the EU has continued to provide substantial assistance to support Moldova's structural reform efforts and to achieve tangible improvements in the lives of the citizens. In September 2017, the European Commission adopted a new **Single Support Framework** 2017-2020, focused on delivering tangible and visible results for citizens. The priority sectors reflect the new Association Agenda and the revised European Neighbourhood Policy¹⁵, and they are coherent with the Eastern Partnership priorities reflected in the "20 Deliverables for 2020". Accordingly, the Annual Action Programme (AAP) has been adopted for 2017 (EUR 79 million) providing support for the participation of CSOs in local, regional and national decision making processes (EUR 5 million), supporting a more transparent, efficient, competitive and resilient economic environment (EUR 12 million) and promoting communication on key EU policies and core values including media freedom (EUR 5 million). In addition, EUR 17 million are provided for investments focusing in particular on improving water supply in the region of Cahul. To strengthen Moldova's energy security EUR 40 million has been set aside to support an electricity interconnector with Romania.

On 28 February 2018, the EU Delegation to the Republic of Moldova together with the EU Member States and Switzerland presented the first European Joint Development Cooperation Strategy to the Government of the Republic of Moldova. This Joint Programming Document serves as a key reference for planning future EU assistance to the Republic of Moldova by presenting a consolidated view of development priorities agreed amongst European donors. This Joint Strategy reflects the revised European Neighbourhood Policy, the Association Agenda 2017-2019 and Eastern Partnership Priorities and is aligned with the Republic of Moldova's National Development Strategy.

This will complement ongoing assistance to Moldova in areas such as public administration reform, justice sector, agriculture and rural development as well as support for the implementation of the DCFTA.

Several projects completed in 2016-2017 have had a significant impact in Moldova, leading to an improvement in citizens' daily lives, while also supporting modernisation of the administration. New business incubators have been established (e.g. Calarasi, Cahul) to boost

¹⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015JC0050&from=EN>

economic development and create jobs. To enhance competitiveness of the agri-food sector, EU support helped to create producer groups and to increase the number of agri-food establishments actively trading with the EU. Studies of the Moldovan students and academic staff (314) in the EU were supported. Matching grants, provided to returning migrants to invest in small businesses in Moldova, led to the creation of 1600 jobs.

Confidence Building Measures benefitted both Transnistria and Gagauzia. For example, 70 people from both sides of the Dniester River were supported to set up businesses and create 350 jobs.

In addition, an amount of EUR 15 million (EUR 5 million per year) has been allocated with a focus on supporting the next phase of the European Union's Border Assistance Mission to Moldova and Ukraine (EUBAM).

Moldova also benefits from regional programmes supporting SME capacities, access to finance and growth as well as the overall business environment which are part of the **EU4Business** Initiative. In addition, the **European External Investment Plan** will help to scale up the assistance provided through fund "blending" by setting up a new Guarantee Scheme, and it will aim to improve the business environment and investment.

Three projects have been selected for implementation in Moldova under **Mayors for Economic Growth** initiative, which is supporting cities in the Eastern Partnership countries in implementing local economic development plans. Moldova will also be able to benefit from the **EU4Digital** initiative, which will support the Harmonization of Digital Markets in the Eastern Partnership region.

Support has been provided for implementation of the EU acquis through the Technical Assistance and Information Exchange instrument (TAIEX) in the organic farming sector and the anti-corruption domain, as well as capacity building of key institutions through Twinning.

Moldova actively participates in two 2014-2020 Cross Border Cooperation (CBC) Programmes. The country is also a key player in the Eastern Partnership Territorial Cooperation Programme Moldova-Ukraine and participates in the Danube Transnational Programme.

A Decision to provide EUR 100 million of EU macro-financial assistance to Moldova (EUR 40 million of grants and EUR 60 million of loans) was adopted by the European Parliament and the Council on 13 September 2017, and it entered into force on 23 September 2017.

The disbursement of the assistance in 2018 depends on the implementation of a number of policy conditions, along with the fulfilment of the political preconditions and a satisfactory track record under the programme with the IMF. Prior to each disbursement, the Commission and the European External Action Service will also assess the fulfilment of the political preconditions on the respect of democratic mechanisms, the rule of law and human rights, as recalled by the European Parliament, the Council and the Commission in their Joint Statement accompanying the legislative decision. The implementation of the aforementioned conditions as well as a continued satisfactory track record under the IMF programme, would allow the disbursement of the assistance in 2018.

The Commission has also taken measures to follow up on the European Court of Auditors' Special Report No 13/2016 on "EU assistance for strengthening the public administration in Moldova" and the related Council conclusions of 19 December 2016.

7. Concluding remarks and future outlook

Reforms undertaken by Moldova have helped to improve its economic situation. Moldova also progressed with regard to the implementation of some reforms and strengthened the implementation of the DCFTA provisions. With extensive support from the EU, policy and legal frameworks have been developed and adopted for both the reform of sanitary and phytosanitary measures contributing to food safety and the roadmaps for the approximation of legislation to the EU acquis as concerns technical barriers to trade and public procurement. Their implementation and enforcement are needed in order to fully unlock the benefits of the AA/DCFTA and deliver tangible results for the citizens. In particular, reforms in the justice sector and the fight against corruption have been started but in some cases not completed and/or not yet implemented. The investigations of the major banking fraud exposed in 2014 have not yet been completed. The changes made to the electoral system did not address some of the key recommendations made by relevant international partners. A comprehensive media sector reform is pending.

Looking ahead, and in line with the Council conclusions of 26 February 2018, considerable efforts are necessary to strengthen the rule of law in Moldova by tackling high level corruption, recovering the funds from the banking fraud and bringing to justice those responsible.

The EU will work with Moldova in particular on the implementation of the revised Association Agenda and the key reform priorities set out there. Ahead of the upcoming parliamentary elections (at the end of 2018) it will be important to ensure inclusiveness in the electoral process.

Public administration reform has also to continue with a goal to create a more efficient civil service and to reinforce the institutions while providing better services to the citizens. In this regard, the civil society is and will remain a key partner for the Government in the implementation of reforms.

In order to increase overall understanding of the EU-Moldova partnership and association, it is important to strengthen communication efforts at all levels, including full and transparent information for the public about the benefits to be brought by the reform process and by the EU support to Moldova.

The EU will continue supporting key reform priority actions through the multiannual programming for 2017-2020 and respective annual programming, also in line with the Joint Staff Working Document “Eastern Partnership - 20 Deliverables for 2020”, with the objective of delivering visible and tangible benefits for citizens, business and consumers of Moldova.