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COMMISSION STAFF WORKING DOCUMENT

ex-ante evaluation statement

Accompanying the document

Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to the Republic of Moldova

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Ex-ante evaluation statement

EU Macro-Financial Assistance to the Republic of Moldova

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1. PROBLEM ANALYSIS AND NEEDS ASSESSMENT

1.1 Introduction

In recent years, the Republic of Moldova has faced many difficulties including on the economic and political front. In 2020, the COVID-19 pandemic, as well as a drought in the summer, had a sizeable negative effect on growth, with GDP contracting by 7%, the strongest recession since the global financial crisis. The economic downturn was exacerbated by a protracted political crisis that followed the presidential elections in November 2020. Soon after the pro-reform candidate, Maia Sandu took office, the government, led by the Party of Socialists, resigned, leading to several months of political stalemate. The political crisis was finally resolved by the parliamentary elections in July 2021, which marked an important turning point. Since August, when the new, reform-oriented government took office, all political forces in Moldova (including the President, the Government and the Parliament) are aligned, supporting a common ambitious reform agenda, with the focus on key policy areas such as justice sector reforms, good governance and the fight against corruption.

However, notwithstanding the renewed political momentum and strong commitment to further reforms, Moldova continues to face significant challenges, not least including governance, corruption, and the need to further strengthen the rule of law and enhance administrative capacity. Moreover, these have been recently aggravated by an energy crisis. Despite a new contract signed with Gazprom on 29 October, some major uncertainties and risks remain. Although Moldova will continue to receive gas supplies at lower than spot market prices , the new gas prices still represent a threefold increase year-on-year. Furthermore there were several challenging conditions attached to the agreement, of which a few raise significant concerns (including on the EU Third Energy Package and the principle of unbundling). The contract also allows the supplier to step out of the contract with 10 days notice.

In this context and given Moldova's continued sizable financing needs, with the external financing gap estimated at 1.2% of GDP in 2022, the Moldovan government requested a new MFA from the EU on 19 November 2021, following an IMF staff level agreement (announced on 21 October 2021) on a three-year Extended Credit Facility/Extended Fund Facility of USD 564 million.

Against the backdrop of the political window of opportunity, with all branches of government committed to address the structural shortcomings of the country, and after an in-depth assessment of the political and economic situation in Moldova, the Commission is submitting to the European Parliament and the Council a proposal to provide a new MFA of EUR 150 million to the benefit of the Republic of Moldova, of which EUR 120 million would be in the form of loans and EUR 30 million in the form of grants.

The proposed MFA would help Moldova cover part of its residual external financing needs, which are estimated at USD 480 million, in the context of the new IMF programme over the period of 2021-2025. The operation would reduce the economy's short-term balance of payments and fiscal vulnerabilities. It would be designed and implemented taking account of the adjustment and reform programmes Moldova has agreed with the IMF and the World Bank, as well as with the reform agenda of the EU-Moldova Association Agreement and the Deep and Comprehensive Free Trade agreement (DCFTA).

The disbursement would take place in three tranches, with the release of each tranche, including the first one, strictly linked to good progress with the implementation of both the IMF programme and a number of additional policy measures to be agreed between the Commission and the authorities and listed in a Memorandum of Understanding (MoU). The MoU is likely to focus on policy reforms addressing asset recovery linked to the 2014 bank fraud, continued Public Finance Management (PFM) reforms, the justice reform, and the energy sector as well as the business environment in general. The implementation of the proposed operation is expected to go hand-in-hand with the support under budgetary operations financed by the Neighbourhood, Development and International Cooperation Instrument (NDICI).

As further elaborated in this Commission Staff Working Document, the Commission considers, based also on the assessment of the political situation made by the European External Action Service, that the political and economic pre-conditions for the proposed MFA operation are satisfied.

1.2 Moldova's macroeconomic situation

Despite a notable recovery following the severe 2020 recession, Moldova's macroeconomic outlook remains vulnerable. This is partly due to the on-going difficult pandemic situation (with the number of COVID-19 cases rising and a relatively low vaccination rate below 30% of the legally resident population as of early December), as well as the recent gas crisis that put Moldova under additional financial strains. Nonetheless, the current strong political realignment and positive growth performance in the first half of 2021 provide for some stability going forward. A detailed forecast of the key macroeconomic indicators for 2021-2025 will also be presented in the following sections, in particular, under the section of IMF support and other donor coordination and on Moldova's external financing needs.

Following a steep decline in 2020, caused by the pandemic, the economy marked a considerable recovery in the first half of 2021, with GDP up by an impressive 11.5% (some of which can be accounted for the low base). However, growth is projected to slow down in the second half of the year, with higher inflation and weakened household consumption. Against this backdrop, the IMF and World Bank assume an overall recovery between 7% and 7.5% for this year as a whole, and declining next year to 4.5% GDP. The main risks prevailing include further evolution of the pandemic and higher energy costs that hinder the positive outlook for 2022-2023.

After significant disinflation in 2020, inflation as measured by the Consumer Price Index (CPI) picked up strongly in 2021, up to 8.8% in October, significantly exceeding the target rate set by the National Bank of Moldova (NBM) at 5% +/- 1.5 percentage points. Most of it can be accounted for the rise in food prices and higher energy tariffs. In response to the high inflationary pressure, the central bank raised its key policy rate several times this year, from a record low of 2.7% at the end of 2020 to 5.5% in October 2021. The NBM projects a further rise of inflation in 2022, to as much as 15% in the first half of next year, of which some is deemed to be of a transitory nature, but may also lead to furthermonetary tightening.

Moldova entered this year with a relatively difficult fiscal position. The general government deficit for 2021 was initially projected to increase to 6.7% of GDP, compared to 5.1% of GDP in 2020. However, on the back of increased tax revenue (the overall tax revenue for the period between January-July 2021 increased by 17% year-on-year), in September, the 2021 State Budget law was revised, including a new projection for a smaller deficit than initially assumed. According to the national authorities, the deficit for 2021 should now reach some 5.2% of GDP.

However, given the ongoing energy crisis and with the authorities planning to introduce new compensation measures to protect the most vulnerable consumers, Moldova's fiscal position is forecast to deteriorate next year. According to the State Budget 2022, presented to the Parliament on 25 November, the budget deficit will increase to 6% of GDP next year, with expenditures rising by 7.6 billion lei, compared to a rise in revenues by 4.2 billion lei, supported by higher VAT colletion.

The debt-to-GDP ratio, while low compared to most of its regional peers, is forecast to further increase from 35% of GDP in 2020 to 37% of GDP in 2021. The impact of the lower-than-expected state deficit on the debt ratio is expected to be offset by a projected rise in external debt, most of it (nearly 60%) with the International Financial Institutions (IFIs). In 2022 and beyond (2023-2025), public debt is projected to exceed 40% of GDP, yet with low risks to debt sustainability, according to the IMF.

The current account deficit, after having narrowed in 2020 to 6.6% of GDP, widened in the first half of 2021 to 14% of GDP year-on-year on the back of improved domestic consumption and trade activity, thereby putting renewed pressure on Moldova's balance of payments. According to IMF forecast, the deficit will near USD 1.5 billion by the end of this year (equivalent to some 11% of GDP), an almost two-fold rise compared to last year. Much of this can be accounted for by the significant rise of both imports and exports in 2021. Between January-September exports were up by 21.1% compared to the same period in 2020, but were outpaced by a 31.7% growth of imports. Although noting a slight decrease following the pandemic (by 2.4 percentage points), the EU continues to be Moldova's key trading partner, accounting for approximately 67% of its exports, followed by the CIS region, with a significantly lower share of total exports, at 15.6%.

Despite the pandemic, Moldova's foreign exchange reserves remained stable throughout 2020, and increased in 2021, remaining high relative to historical standards, at USD 4 billion as of end-September. This translates into a coverage of 8 months of imports, and largely reflects the allocation of the Special Drawing Rights (SDR) by the IMF in August of USD 236 million, which was part of the Fund's global response to the COVID-19 pandemic. According to an agreement between NBM and the Ministry of Finance, approved by the Moldovan Parliament on 14 October, the authorities will be able to use the IMF SDR allocation to cover the urgent budgetary needs.

The Moldovan economy continues to be highly dependent on worker's remittances from aboard, which correspond to a considerable share of the country's GDP. Despite the pandemic, remittances remained relatively stable last year and are projected to stay within the range of 14% - 15% of GDP in 2021 and 2022, comparable to the pre-crisis levels.

Following a steep decline last year, from 3.9% of GDP in 2019 to 1.3% of GDP in 2020, FDI inflows are projected to rebound in the medium term (2021-2024) to some 2% of GDP.

Table 1: Moldova – Selected macroeconomic indicators, 2018-2025

	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
	(Annual percentage change, unless otherwise indicated)							
National Accounts								
Real GDP growth	4,3	3,7	-7,0	7,5	4,5	5,5	5,8	5,4
Population (million)	2,7	2,6	2,6	2,5	2,5	2,4	2,4	2,3
Consumer price index, period average	3,6	4,8	3,8	4,0	6,2	5,0	5,00	5,00
GDP per capita (USD)	4,196	4,464	4,522	4,791	5,240	5,729	6,288	6,884
Unemployment rate (in per cent)	3,1	5,1	3,8	5,5	3,0	3,0	3,0	3,0
	(In per cent of GDP, unless otherwise indicated)							
Consolidated government operations								
Revenue and grants	30,1	29,9	30,4	31,8	31,6	32,2	32,5	32,8
Expenses	31,0	31,4	35,5	37,0	37,6	37,2	36,7	36,6
Overall fiscal balance	-0,8	-1,4	-5,1	-5,2	-6,0	-5,1	-4,1	-3,8
General Government gross debt	30,3	27,9	35	37,1	40	42,0	42,9	42,5
o/w external debt	17,3	15,8	20,3	22	22,7	23,6	24,0	22,8
External sector								
Current account balance	-10,6	-9,3	-7,5	-11,3	-10,2	-9,4	-8,8	-8,2
Gross international reserves, end of period (USD bn)	2,99	3,06	3,78	4,29	4,05	3,87	3,58	3,40
- In months of next year's imports of goods/services	5,4	6,2	6,1	6,5	5,8	5,2	4,7	4,2
Foreign direct investment, net	2,3	3,9	1,3	1,8	1,9	1,9	2,1	2,1
Nominal exchange rate (average - lei/USD)	16,8	17,6	17,3	…	…	…	…	…

Sources: IMF staff estimates, World Bank, MoF

1.3. IMF and other donor support

Since 1993, Moldova has benefited from a number of arrangements with the IMF in support of the authorities' economic adjustment programmes. The last one was a three-year combined ECF/EFF, split equally between the two facilities, totalling SDR 129.4 million (about USD 178.7 million and equivalent to 75% of Moldova's quota). This was approved by the IMF Executive Board in

November 2016, and expired in February 2020, with the release of the final tranche of SDR 14.4 million (USD 20 million).

Following the COVID-19 crisis, in July 2020, the IMF and Moldova signed a new staff-level agreement for a follow-up three year ECF/EFF programme of USD 558 million (SDR 400 million, equivalent to 232% of Moldova's quota in the Fund). The Executive Board decision was initially scheduled for September 2020. However, the programme was postponed due to delays in the implementation of the prior actions, as well as a challenging political situation in the country. After the positive results of the July 2021 elections, the IMF re-engaged with the new Moldovan authorities. An extended three-week mission was concluded in October with a new staff-level agreement for an ECF/EFF programme of USD 564 million, accounting for 232% of Moldova's quota over a period of 40 months. [The staff level agreement was approvedby the Executive Board decision on 20 December 2021, following the fulfilment of several key prior actions that proved challenging for Moldova, including the selection of three Deputy Governors for the National Bank of Moldova.]

The new ECF/EFF agreement aims to help Moldova sustain its post-pandemic economic recovery with an appropriate policy mix and to advance on a multi-year governance and institutional reforms to rebuild policy buffers, and foster stronger, inclusive and sustainable income growth. Reform priorities will target, among others, strengthening transparency and accountability, improving public policy predictability, strengthening financial institutions and fostering deregulation, while concrete policy measures will aim at:

- Tackling the twin-shocks of the pandemic and the energy crisis, while moving towards more development-focused spending, as the situation in Moldova stabilises. Expenditure priorities should include capital spending on roads, energy, and water projects, as well as more effective investment in health, education and job creation. The government should also focus on strengthening its fiscal governance structure, debt sustainability and ensuring transparency.

- Transparent and strong governance of Moldovan financial institutions should remain a key priority. Past reform progress has boosted the resilience of the financial sector in the face of an on-going crisis. In this context, further fostering the independence of the central bank remains critical, as well as safeguarding its financial autonomy and strong governance. Improvements to financial integrity should be made that would help the financial sector better withstand illicit financial flows, which since the bank fraud crisis of 2014 continues to be a drag on the Moldovan economy.

- Moldova should advance on more comprehensive State Owned Enterprises (SOE) reforms. The sector suffers from weak performance, poor governance and oversight. Under the IMF programme, reforms will focus on introducing new and more effective legal and supervisory measures, including increasing the state's oversight over SOEs operations, strengthening reporting and assessment, improving monitoring and managing fiscal costs, with better transparency, accountability and controls.

- Finally, the programme will also aim at promoting further reform in the area of the rule of law and anti-corruption, which is critical in the Moldovan context for unblocking further growth potential. The Moldovan justice system needs further transformation in order to work in an independent, integral and accountable manner. This also applies to the anti-corruption institutions as one of the major near-term priorities. Rule of law reforms will be administered in line with proper checks and balances and carried out in accordance with the Moldovan constitution and internationally recognised norms.

Economic recovery is gradually projected to strengthen during the programme, with real GDP growth accelerating in 2022-2024 to between 4.5% and 5.8%. After a rise to 6.2% in 2022, annual average inflation is expected to slow down and remain within the target range set by the NBM at 5% under the programme period, on the back of more restrictive monetary policy and following more stability in the energy markets. The budget deficit is expected to widen in 2022, primarily as an effect of higher energy tariffs, at 6% of GDP, but is set to decline in the following years to some 5% in 2023, and 4% in 2024. On the back of higher external debt, due to increased support from international partners, public debt is projected to rise to over 40% of GDP in the medium-term, yet with low risk of debt distress according to the IMF. Starting in 2022, the current account deficit would narrow, going down from 10% of GDP to 9.4% in 2023 and 8.8% in 2024.

Under the FY18-21 Country Partnership Framework (CPF), the World Bank continues to support Moldova's transition towards more sustainable growth. Between 2018 and 2020 the Bank delivered lending to Moldova, under various projects, totaling USD 332.3 million, focusing on three top priorities, including i) strengthening the rule of law and accountability in economic institutions; ii) improving inclusive access to and the efficiency and quality of public services; and iii) enhancing relevance of education and training for job-relevant skills. In response to the pandemic, the World Bank also supported Moldova with a USD 57.9 million Emergency COVID-19 Response Project to help Moldova increase its capacity to mitigate the immediate impact of the pandemic.

A new five-year CPF strategy is under preparation to build on previous priorities and respond to new challenges, through a mix of advisory and lending products, involving possible Development Policy Lending (DPL) of USD 140 million over the 2022-2024 period. These new DPLs are be disbursed in two tranches in 2022 and 2023 and focus on two key policy pillars, including enhancing competitiveness and strengthening resilience, in line with the government Action Plan 2021-2022 and the long-term development objectives of Moldova.

As regards assistance from the EU, following the outbreak of the energy crisis, the European Commission has mobilized additional resources to provide immediate support to Moldova. As such, EUR 60 million are being made available through a budget support operation under a State and Resilience Building Contract, in line with the priorities of the draft 2021-2027 Multiannual Indicative Programme that is in preparation, and the Economic Recovery Plan for Moldova announced on 5 June 2020. This operation aims at mitigating the socio-economic impact of the rising gas prices, strengthening the Government's capacity to provide tailor-made support to the most vulnerable groups and increasing Moldova's energy security in the medium to long-term. Further support of EUR 15 million is also being offered to vulnerable groups by the Foreign Policy Instruments (FPI) service.

In addition to policy-based support, Moldova also benefits from substantial project-based loans from the EBRD and EIB, among others.

As of end July 2021, the EBRD has invested EUR 1.43 billion in Moldova under 145 projects. Currently, the Bank has over fifty projects active in the country, under an envelope of EUR 612 million. It is pursuing a number of strategic investments, including on private sector development and rehabilitation of key infrastructure, in addition to its equity participation in Victoriabank,which was critical to restore financial stability, as well as projects that involve co-financing from EIB and EU grants.

The EIB has been active in Moldova since 2007 and has provided EUR 850 million covering credit lines that support SMEs and projects in the water, sewage, energy, transport and agriculture sectors.

1.4. External financing needs

The projections produced by the IMF following their recent mission point towards significant financing needs for the 2021-2025 period, with the total external financing gap estimated at USD 848 million. This financing gap can broadly be attributed to the relatively large current account deficit coupled with considerable fiscal needs, exacerbated by the pandemic last year and the energy crisis that started in October 2021.

The IMF, as noted, projects that the current account deficit will remain sizable. Indeed, after a reduction in the deficit in 2020, due to import compression caused by the pandemic, it is assumed to widen considerably, at -11.3% of GDP in 2021 according to the Fund's forecast, compared to -7.5% of GDP in 2020. During the programme, the deficit is projected to hover within the range of -10.2% and -8.8% of GDP. This is to be covered to some extent also by positive capital inflows and Moldova's relatively stable and high reserves.

The second factor contributing to Moldova's difficult macroeconomic position is the budgetary situation, expected to significantly deteriorate in 2022. Although Moldova should be able to cover its fiscal needs until the end of 2021, with the budget deficit assumed to be lower than initially projected at -5.2.% of GDP, the higher gas prices will put Moldova's state budget under additional constraints, as the government has declared that it will introduce support measures to compensate for the increased energy costs.

Moldova entered the energy crisis with some, albeit limited, buffers. It has benefitted from the USD 236 million SDR allocation by the IMF in August (which according to a law passed by the parliament was to be transferred from the National Bank of Moldova to the Ministry of Finance), and the second tranche of the COVID-19 MFA of EUR 50 million in October. An additional EUR

21.4 million in budget support assistance to support reforms and the fight against COVID-19 in the police sector and EUR 15 million to mitigate the socio-economic impact of the COVID-19 pandemic were also disbursed by the European Commission in September 2021. However, this funding is assumed to remain insufficient to cover the higher gas tariffs and the support measures compensating the most vulnerable consumers. The government deficit is thus forecast to grow to 6% of GDP in 2022, remaining within the range of -5% and -4% in 2023-2024, thereby significantly above its pre-crisis level at -1.4% of GDP in 2019. Prompted by this, Moldova's central government debt is projected to increase to 37% of GDP in 2021, and exceed 40% of GDP in the medium-term.

The ECF/EFF arrangement at staff level in October proposes the amount of SDR 400 million, or about USD 564 million. The World Bank for its part, is expected to support Moldova with disbursements of USD 50 million in 2022 and in 2023, and USD 40 million in 2024.

The proposed MFA operation of EUR 150 million (USD 174 million) would cover 36% of the estimated residual financing gap, in line with the principles of fair burden-sharing among donors and value added of the EU's MFA enshrined in the Joint Declaration of 2013 of the Parliament and the Council on Macro-Financial Assistance. This level of MFA support is justified by the exceptional crisis context in Moldova, stemming from the deteriorating external position, limited institutional capacity, protracted recovery from the COVID-19 pandemic, and the ongoing energy crisisthat have further weakened the country's macroeconomic stability. Moreover, the proposed share is in line with the conclusions of the ECOFIN Council of 8 October 2002, which specified that "*[…] for candidate countries (countries which have signed Europe or Association Agreements with the EU) and European countries which are concerned by the Stabilization and Association process (countries which have signed, or are expected to sign, Stabilisation and Association Agreement), the maximum Community involvement may amount to as much as 60% of the country's residual financing needs over and above contributions from multilaterals*''.

Since July 2016, when the Association Agreement with the EU entered into force, including the Deep and Comprehensive Free Trade Area agreement, Moldova is an Associated Country. Since then, relations with the EU have strengthened, focusing on a wide range areas agreed under the Association Agenda and with an annual high-level dialogue in the Association council. The last Association Council meeting, which took place on 28 October 2021, reaffirmed Moldova's European aspirations, and the joint commitment to further deepen political and economic integration between the EU and Moldova. It also reiterated the EU's strong support to Moldova in the face of the evolving gas crisis and the on-going difficult pandemic situation. The MFA would thus feature as part of the Union's comprehensive assistance to Moldova.

Other key contributions to cover the residual financing gap include the disbursement of EU budget support grants (estimated at EUR 166,4 million for the period between 2021-2025).

Table 2: Moldova's External Financing Gap and Potential Financing Sources

USD million	2021	2022	2023	2024	2025	Total 2021-25
1. Current account balance	-1.469	-1.384	-1.361	-1.345	-1.341	**-6.900**
2. Capital and financial account balance	1.773	922	940	1.078	1.138	**5.851**
3. Overall balance (1+2)	304	-462	-421	-267	-203	**-1.049**
4. Reserves ("-" indicates increase)	-514	242	178	92	203	**201**
5. Overall External Financing Gap	**-210**	**-220**	**-243**	**-175**	**0**	**-848**
6. Exceptional Financing by IMF and WB						
Net IMF Disbursements	30	46	100	52		**228**
Disbursements of World Bank's DPLs		50	50	40		**140**
7. Residual Financing Gap	**-180**	**-124**	**-93**	**-83**	**0**	**-480**
Financing of the gap						
EU MFA	58	58	58	58		**232**
EU budget support grants	112	35	23	23		**193**
Other official bilateral donors	10	7				**17**
Total identified sources	**180**	**100**	**81**	**81**	**0**	**442**

Sources: Latest IMF staff estimates and projections (October 2021) and commission staff calculations.

1.5. Structural reforms

Previous reform achievements

Despite a challenging political situation over the past several years, with frequent changes of government, the Moldovan authorities made efforts in the implementation of its reform agenda in order to reduce macro-economic imbalances and to strengthen long-term growth. These efforts were in part induced and supported by substantial financial and technical assistance provided by multilateral and bilateral partners, including the IMF, the World Bank and the EU (i.e. EU budget support; the 2017-2020 MFA and the EU COVID-19 MFA). However, some actions delivered only uneven results, including under previous MFA assistance, where several reforms were not implemented or lacked substantial elements to be deemed fully completed. This led to the cancellation of the third and final tranche of the 2017-2020 MFA programme in July 2020, with some important actions re-introduced in the COVID-19 MFA, for example, on amendments to the Superior Council of Magistracy, adoption of the new Customs Code in line with the Union Customs Code or the asset recovery strategy. The following section will take stock of the progress made and actions that require further efforts, which could be considered under the proposal for a new MFA to Moldova.

The Government of Moldova remains committed to the implementation of the Public Finance Management Policy (PFM) Strategy (2013-2020), which has been extended until the end of 2022. The authorities have made some important achievements, including on increasing the accuracy of revenue projections by the Ministry of Finance. Some important steps were also made as regards Public Administration Reform (PAR), in particular, on salary management and policy coordination by the State Chancellery. Yet, the authorities recognise that the institutional setup of public administration (and its limited capacity) is in need of further reforms.

Central public procurement also requires further adjustments, notwithstanding the successful efforts made to improve public procurement in the health sector under the COVID-19 MFA. A new Public Procurement Strategy for 2021-2026 and an action plan are under preparation.

Moldova has made some efforts in its fight against corruption, for example, by increasing the annual budget of its anti-corruption institutions including the National Integrity Authority, the Criminal Asset Recovery Agency and the Financial Investigation Unit. In line with the COVID-19 MFA conditionality, the authorities have also introduced and adopted amendments to the law on the National Integrity Authority and made important adjustments regarding the assets- and conflict-of-interest declarations.

As agreed under the COVID-19 MFA, the Moldovan authorities proposed and approved a new asset recovery mechanism, however, the actions undertaken proved insufficient to meet the criteria set out in the conditionality. The new mechanisms provided for two Action Plans, one on the investigation and the prosecution team; and one on reviewing the criminal asset recovery legislation. The Action Plans were adopted via an inter-institutional order, which from a legal standpoint, does not have the same leverage and where the signing parties (including the Office of the Prosecutor General and the Crime Assets Recovery Agency) can withdraw from the inter-service agreement, effectively annulling the mechanism. In addition, the proposed changes were lacking on some key elements, such as clear timetables and targets for the asset recovery.

On financial sector stability, in September 2020, Parliament adopted the Law providing for a transfer of supervision powers from the National Commission for Financial Markets to the National Bank of Moldova, taking effect as of 2023. The law was adopted in the context of a constantly increasing credit portfolio of non-banking and credit institutions combined with a weak supervision of the insurance market. In addition, the Parliament adopted the long-awaited changes to the Law on insurance, transposing to some extent the EU Solvency II Directive. Nonetheless, the financial stability of the insurance sector remains generally at risk. For example, the authorities have not advanced on the implementation of proper supervisory audits by international auditors or on fixing shareholders transparency in several systemic insurance companies.

Moldova continues its commitment to the implementation of the Deep and Comprehensive Free Trade Area agreement (DCFTA). Nonetheless, the Domestic Trade Law, adopted by the Parliament in December 2020, goes against the DCFTA and World Trade Organisation provisions on national treatment of goods. Therefore, adjustment of the current law will remain key.

The alignment of Moldova's power sector with the EU's Third Energy Package has been advancing slowly, in particular for what concerns gas unbundling. Under the 2017-2020 MFA programme for Moldova, the authorities did not fulfil one of the conditions for the final tranche that required the functional unbundling of the three system operators in the gas sectors, namely the separation of MoldovaTransGaz and ChisinauGaz from Moldovagaz. However, some progress has been achieved in the energy sector, namely the Ungheni-Chisinau pipeline was completed in August 2020, the National Energy Regulation adopted new electricity market rules, and the electricity interconnection between Moldova and Romania started, with the support from the EU and the IFIs. Moldova also continues its much-needed efforts on improving energy efficiency under the 2019-2021 National Energy Efficiency Action Plan.

Main government priorities ahead

Acknowledging the need for further and deeper structural adjustments, the Moldovan authorities, following the elections in July, have taken immediate steps to advance on the existing reform agenda, which allowed them to successfully fulfil the COVID-19 MFA conditionality, with the exception of one action – on asset recovery – that required a waiver. To that end the Commission consulted the Member States Committee and received no objections, however, with the understanding that this action will remain a reform priority ahead. The Moldovan government has indeed proposed an ambitious reform agenda, under the title “Moldova in good times 2021-2025” with with key policy areas including good governance, the rule of law, anti-corruption, economic development and a strong commitment to asset recovery and the on-going investigations related to the 2014 bank fraud. In order to be able to deliver on all these fronts and as an overarching critical issue to be addressed by the new government is the limited administrative capacity across Moldova’s state institutions. To that end, further support from international partners in the form of technical assistance will also be needed to build up the necessary expertise in Moldova.

Concrete short-term actions to be taken by the government are spelled out in the Government Action Plan for 2021-2022, which is undergoing an assessment by the Commission services. Drawing on what has been presented so-far, the following reform areas warrant mention:

1. **Good governance and Public Finance Management**

   The government is committed to modernisation of its administration by application of principles of good governance, including transparency, integrity, accountability and stability. It is committed to further implementation of the 2013-2020 PFM Strategy (extended until 2022). It also sets out the objective of developing and implementing a new PFM strategy following the Public Expenditure and Financial Accountability assessment. Consolidation of the strategy for public debt management, of internal audit structures, and project implementation units is also among the key objectives.

   The Government Action Plan foresees a new strategic document for Public Administration Reform, addressing territorial fragmentation and voluntary amalgamation. Further reforms in this area also include: i) increasing administrative capacities for policy design and policy and regulatory impact assessment, ii) based on functional assessment, conducting a restructuring process in concerned ministries, iii) improvement of the quality of public services andiv) improvement of the statistical system. A new Public Procurement Strategy is to be envisaged. The Action Plan also envisages to increase transparency of the deicision-making process by reviewing the legal framework to ensure access to information.

2. **Rule of law and fight against corruption**

The Government remains committed to updating the Asset Recovery Strategy 2018 and providing for a more effective asset recovery mechanism. As such, further work on this important action with the authorities remains necessary. The Government has also discussed the asset recovery strategy with IMF counterparts, as part of the recent mission and the new staff level agreement. A coordinated approach between the Fund and the EU will be taken to ensure consistency and that Moldova advances on the asset recovery and legal proceedings related to the 2014 bank fraud. Further strengthening of the authorities responsible for financial sector oversight and ensuring the independence of the National Bank of Moldova are key objectives, including under the new IMF programme.

Further strengthening of anti-fraud policies and continued cooperation with the European Anti-Fraud Office (OLAF), in line with the Association Agreement remains key. To that end, reporting on anti-money laundering strategy implementation to MONEYVAL is foreseen under the Action Plan. The Government also plans to continue working on the restructuring of the National Anti-Corruption Centre and providing for a realignment of its competences with Anti-Corruption Prosecution.

Approving the law on the extraordinary evaluation of judges and prosecutors, and providing for government approval for the reform of the Supreme Court into a cassation court are among the immediate government priorities under justice sector reforms. In addition, the Government also foresees an evaluation of the Prosecutor General as well as completing transparent selection of members of the Superior Council of Magistracy (SCM) and the Superior Council of Prosecutors.

3. **Business Environment**

The Government commits to further implementation of the Deep and Comprehensive Free Trade Area agreement, including to provide additional amendments to the Domestic Trade Law, which will exclude practices of unfair competition.

Conducting an audit of State Owned Enterprises (SOEs) features among the top priorities in the Government agenda. To that end, the authorities plan on adopting a new code of corporate governance and new procedures on selection of the members of management boards.

The Action Plan also includes further improvements to the legal framework on informal employment, labour inspection and occupational health and safety measures, in line with the agreement signed between Moldova and the ILO in October 2021 on the 2021-2024 Decent Work Country Programme.

4. **Energy Sector reforms and social safety nets**

In light of the ongoing energy crisis, increasing Moldova's energy security and providing for a better functioning energy market is among the government's top priorities. To that end, the authorities are planning a new energy security strategy, with a clear vision and implementation mechanism that would consider various energy mixes, including energy efficiency projects and green energy as well as addressing the Transnistrian energy issue[1]. In addition, as an immediate priority, further administrative and technical capacity building in the energy sector is needed, as well as building up expertise on the energy market and strengthening the insitutional set up, in particular, in the competent Ministries.

In the long-term, further implementation of the EU Third Energy Package is also key, as well as exploring options for effective unbundling (despite the new contractual agreement with Gazprom) and enabling genuine third party access, in line with Moldova's commitments to the Energy Community. To that end, it will also be important to strengthen Moldova's gas storage capacities and gas supply options. The authorities also foresee to further accelerate the work on the electricity interconnection with Romania and upgrading the heating infrastructure in the two biggest cities (Chisinau and Balti).

In light of higher energy tariffs, the authorities are also planning to introduce new measures to compensate the most vulnerable households under the National Energy Crisis Action Plan (NECAP) to which the Commission has allocated EUR 60 million in budget support. The plan also foresees changes to energy legislation and work towards capacity building for energy security.

2. OBJECTIVES AND RELATED INDICATORS OF THE MACRO-FINANCIAL ASSISTANCE

2.1. Objectives

The objectives of the proposed MFA operation are to:

i) Contribute to covering the external financing needs of Moldova in the context of a sizeable external financing gap brought about by a relatively large current account deficit..

ii) Support the fiscal consolidation effort and external stabilisation expected in the IMF programme.

iii) Support structural reform efforts aimed at improving overall macroeconomic management, strenghening economic governance and transparency, and improving the conditions for sustainable growth.

iv) Facilitate and encourage efforts by the Moldovan authorities to implement measures identified under the EU-Moldova Association Agreement and in the context of bilateral cooperation

[1] The new contract with Gazprom seems to have not affected the status of gas supply to Transnistria (TN). This means that TN will continue receiving gas under previous conditions (without paying the bill). Under the new price, TN's debt will thus further increase, creating additional pressure on Moldova from the Russian side in the long-term perspective. On several occasions in the past, Gazprom tried to include TN's debt accumulation into the overall gas discussions with Moldova, linking energy issues with political conditions.

programmes (including capacity-building), support regulatory convergence and economic integration with the EU and strengthen the EU's economic policy dialogue with the authorities.

2.2 Monitoring indicators

The fulfilment of the objectives of the assistance will be assessed by the Commission, including in the context of the ex-post evaluation (see below), on the basis of the following indicators:

i) Progress with macroeconomic and financial stabilisation, notably by assessing the degree of adherence to the IMF-supported programme.

ii) Progress with the implementation of structural reforms, notably the specific policy actions to be identified as conditions for disbursement of the assistance, which will be included in a Memorandum of Understanding to be negotiated between the Commission and the Moldovan authorities.

3. DELIVERY MECHANISMS AND RISK ASSESSMENT

3.1 Delivery mechanisms

The MFA operation under consideration is expected to cover part of the residual financing gap for the 2022-2024 period and would amount to a maximum of EUR 150 million. The Commission proposes to provide the assistance in the form of a medium-term loan of up to EUR 120 million and grants of up to EUR 30 million. Given the proposed size of the operation, the Commission is considering releasing the assistance in three instalments, evenly disbursed over the programme period, between 2022 and 2024.

As the proposed amount is significant in terms of its share in the coverage of the residual financing (i.e. by 36% as noted above), it is important to ensure the MFA's value added, notably by providing the EU with sufficient leverage to promote reforms. To that end, policy conditions will be attached to the MFA's disbursements, with each tranche, including the first one, being subject to good progress with the IMF programme and the specific actions agreed with the EU in the Memorandum of Understanding as well as the fulfilment of the political preconditions (see below). Given the crisis context and their administrative capacity, particular attention will be given to the feasibility of structural reform actions attached to the first instalment.

The inclusion of a grant element is consistent with the methodology for determining the use of grants and loans in EU MFA, as endorsed by the Economic and Financial Committee in January 2011, which takes into account the following criteria:

Firstly, Moldova is a lower middle-income country with a relatively low per capita Gross National Income (GNI) at USD 14,280 in 2019, according to theWorld Bank.

Secondly, while Moldova`s public debt dynamics are judged to be sustainable by the IMF, the debt ratios have significantly increased following last year's pandemic crisis. The public debt-over-GDP ratio went up from 27.9% at the end of 2019 to 35% at the end of 2020 and is expected to further rise to over 40% in the medium term (2022-2025). Total external debt, including public and private debt, remains relatively high, at some 64% of GDP in 2020 and 2021, and is assumed to stay within the 60% range in the period between 2022-2025.

Thirdly, Moldova remains eligible for concessional financing from the IMF, and blended financing from the World Bank, having recently (2020) graduated from IDA and being considered as creditworthy for borrowing by the International Bank for Reconstruction and Development (IBRD).

While Moldova meets, as noted, the criteria for receiving at least part of the proposed MFA in grants, the fact that it is not a PRGT/IDA-only country, but a blended one, and the constraints in the EU budget for MFA grants argue in favour of using both loans and grants in the proposed operation. The Commission proposes to provide the bulk (80%) of the proposed MFA in the form of medium-term loans. As usual, these loans will carry very favourable conditions in terms of long maturities and grace periods (of up to 15 years) and a low interest rate (the rate at which the EU, benefiting from its triple A rating, borrows the funds in the international capital markets).

3.2 Risk assessment

There are fiduciary, credit, policy and political risks related to the proposed MFA operation.

There is a risk that the MFA, which is not dedicated to specific expenses (contrary to project financing, for example), could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the central bank and the ministry of finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriatedness of internal and external audit capabilities.

To mitigate the risks of fraudulent use several measures will be taken. First, the Loan Agreement and the MFA Grant Agreement will comprise a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. Also, the assistance will be paid to a dedicated account of the National Bank of Moldova.

Moreover, in line with the requirements of the Financial Regulation, in the context of the COVID-19 MFA package, the Commission services have carried out an Operational Assessment of the financial and administrative circuits of Moldova in order to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The final report of the Operational Assessment, prepared by a consultancy company, was received in June 2020. The report notes clear progress in PFM systems and other financial circuits since 2015 when the last exercise was undertaken and concludes that the status of Moldova’s financial circuits and procedures is deemed favourable for a subsequent MFA operation. Developments in this area will continue to be closely monitored also through the regular progress reports on PFM reforms produced by the EU Delegation in Chisinau.

The Commission is also using budget support assistance to help the Moldovan authorities improve their PFM systems and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors.

A second risk stems from the possibility that Moldova will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused by a significant additional deterioration of the balance of payments and fiscal position of the country or/and by unforeseen events. This risk is mitigated, however, by the fact that the EU's MFA would be part of an international package of official assistance led by the IMF that is supporting an adjustment and reform programme aimed at restoring fiscal and balance of payments sustainability through the implementation of a series of policy measures, included those to be agreed in the MoU between the EU and the Moldovan authorities. Moreover, the risks for the EU budget are in the first instance covered by the EU's External Action Guranatee.

Another key risk to the operation stems from further developments in the energy sector, including Moldova's relations with Gazprom and Russia, and its impact on the political stability in the country, which, in turn, could weaken the prospects of further necessary economic reforms, espcially in the energy sector. A derailment of the reform process could also put the objectives of the IMF-supported programme in jeopardy, endanger macroeconomic stability and prevent the effective disbursement of the EU's MFA.

Further, there are risks stemming from a possible weakening of the European and global economic environment (taking into account Moldova's dependence on the EU market) and an increase in international energy prices, which would have an important effect on Moldova's fiscal and balance of payments situation.

Having made a thorough assessment of the risks, the Commission services consider that there are sufficient grounds and guarantees to proceed with the proposed MFA to Moldova.

The Commission services will maintain close contacts with the authorities during the implementation of the macro-financial assistance in order to address quickly any concerns that may arise.

4. ADDED VALUE OF EU INVOLVEMENT

The Union's financial support to Moldova reflects the country's strategic importance to the EU in the context of the European Neighbourhood Policy. The MFA instrument is a policy-based instrument directed to alleviate short- and medium-term external financial needs. As a part of the overall EU package of assistance, it would contribute to supporting the European Union's objectives of economic stability and economic development in Moldova. By supporting the authorities' efforts to establish a more stable macroeconomic framework and improve economic governance, the proposed assistance would help improve the effectiveness of other EU financial assistance to the country, including budgetary support operations.

The EU's MFA would also complement the standard EU aid packages mobilised under the NDICI. By supporting the adoption, by the Moldovan authorities, of an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA would enhance the added value and effectiveness of the EU's involvement through other financial instruments. The proposed MFA would increase substantially the EU's leverage on policy making in Moldova, helping steer the country towards a reform trajectory that should restore macroeconomic stability, increase energy security, address governance problems and boost potential growth in the longer run.

5. CHARATERISTICS OF MACRO-FINANCIAL ASSISTANCE

5.1 Exceptional Character and Limited Time-frame

The MFA operation would be exceptional, aiming to support the restoration of a sustainable external finance situation for Moldova. It would run in parallel to the IMF ECF/EFF arrangement, with a staff level agreement reached on 21 October 2021 and as adopted by the Executive Board on [20 December 2021]. The proposed MFA would only be implemented if the IMF programme remains on track. Against this background and given the expected time of approval of the programme, the assistance is expected to be implemented in 2022-2024. The disbursement of the first tranche could take place in Q2/Q3 2022, the second and third tranches will be disbursed evenly over the remaining time period, until the end of the first half of 2024. All disbursements are conditional on the IMF programme remaining on track and on a number of policy measures, agreed with the EU and listed in the Memorandum of Understanding attached to the proposed MFA operation. While in the short-term the country faces substantial balance of payments financing needs, the macroeconomic and structural adjustment programme to be agreed with the IMF and supported by the proposed MFA is expected to produce a gradual strengthening of the balance of payments and fiscal positions.

5.2 Political preconditions and EU-Moldova relations

Countries that are covered by the ENP are eligible for MFA. A pre-condition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

The change of political leadership in Moldova, following presidential elections in 2020 and parliamentary elections in 2021, has aligned all the main institutions on a common pro-reform agenda and has brought a positive perspective for the required structural reforms in line with the EU-Moldova Association Agreement and DCFTA.

There is a clear commitment for reforms aimed at ensuring democratisation and rule of law. The main priorities of the new government are justice reform and fight against corruption, increasing the economic and social standards for citizens and achieving prosperity for the country. It has to be noted, that the new Government took office during the COVID-19 pandemic and after eight months of the interim government’s failure to continue reforms and fulfil agreements with the developments partners. The recent energy crisis has added an additional challenge.

In the first 100 days in office, the new Government and Parliament have made progress on reforms, including by adopting constitutional amendments to strengthen the independence of the judiciary, improving the work of the integrity authority and ratifying the Council of Europe Convention on preventing and combating violence against women and domestic violence (Istanbul Convention). There is strong commitment to advance on implementation of a comprehensive justice reform and a new strategy in this regard is soon to be adopted.

According to the OSCE/ODIHR assessment, the latest elections were well administered, competitive and fundamental freedoms were largely respected, although some shortcomings were also observed. The composition of the Central Electoral Commission has been changed and amendments to the Electoral Code, addressing some of the OSCE/ODIHR and Venice Commission recommendations, are under preparation.

The renewed reform-commitment and strong political will to make further progress in key reform areas in a transparent manner and in line with European standards is a positive sign.

EU-Moldova relations: The EU and the Republic of Moldova have developed a close political and economic relationship over the years, leading to conclusion of the Association Agreement (including the DCFTA), which was signed on 27 June 2014 and entered fully into force on 1 July 2016, and an Association Agenda sets out the list of priorities for joint work. The last Association Agenda for 2017-2019 was extended by one year (due to the pandemic), whilst a new document is under preparation, covering the 2021-2027 period.

In sum, Moldova has a democratic political system based on the rule of law and the respect forhuman rights and is taking steps to strengthen its democratic institutions and address the serious governance problems. There is also a very close framework of bilateral relations between the EU and Moldova under the Association Agreement and the European Neighbourhood Policy. The political pre-condition for considering an MFA may therefore be considered to be satisfied.[2]

5.3 Complementarity

The proposed MFA would complement the assistance provided by other multilateral and bilateral donors in the context of the new IMF-sponsored economic programme. Based on the information currently available and assuming an IMF programme of a structure as described in the previous section, multilateral and bilateral donors other than the EU are expected to cover at least 50% of the estimated external financing gap for the period 2021-2025, ensuring reasonable burden-sharing. The EU's MFA would also complement the standard EU aid packages mobilised under the NDICI. By supporting the adoption, by the Moldovan authorities, of an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA would enhance the added value and effectiveness of the EU's involvement through other financial instruments. The proposed MFA would increase substantially the EU's leverage on policy making in Moldova, helping steer the country towards a sustained reform trajectory to restore macroeconomic stability, address governance problems and boost potential growth in the longer run and in a sustainable manner.

5.4 Conditionality

Disbursements under the proposed MFA operation would be conditional on successful programme reviews under the IMF programme. In addition, the Commission and the Moldovan authorities would agree on a specific set of structural reform measures, to be defined in a Memorandum of Understanding. These reform measures would support the authorities' reform agenda and complement the programmes agreed with the IMF, the World Bank and other donors, as well as the policy programmes associated with the EU's budgetary support operations. They would be consistent with the main economic reform priorities agreed between the EU and Moldova in the context of the Association Agreement, including its DCFTA, the Association Agenda, Moldova's Government Action Plan for 2021-2022 and other strategic documents.

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2 A complete assessment of the satisfaction of the political criterion for MFA will be provided by the European External Action Service, as it is usual practice, at the time of the adoption by the Commission of the MFA proposal.

The Commission will seek a broad consensus with the Moldovan authorities, so as to ensure their ownership and foster smooth implementation of the agreed conditionality. These policy conditions should address some of the fundamental weaknesses shown over the years by the Moldovan economy and economic governance system. Possible areas of conditionality could, in principle, include reforms to strengthen governance in the financial sector, providing for a more effective asset recovery, PFM, energy sector reform, improving the investment climate, as well as further justice sector reforms and supporting the implementation of the DCFTA agreement, as outlined in detail in section 1.5 on structural reforms.

5.5 Financial Discipline

The proposed EUR 150 million MFA operation for Moldova is foreseen to be disbursed in three equal tranches to be released in 2022 and until the programme expires in 2024, possibly already in 2023. The financial programming over the 2022-2023 period allows for a grant component of EUR 30 million to be financed from the available budget on budget line 14 20 03 01 “Macro-financial assistance (MFA) - grants". For the loan component of EUR 120 million, the required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the Neighbourhood, Development and International Cooperation Instrument (NDICI), for a total amount of EUR 10,8 million (budget line 14 02 01 70 “NDICI – Provisioning of the Common Provisioning Fund”).

6. Evaluation and cost-effectiveness

This assistance is of exceptional and macroeconomic nature and its evaluation will be undertaken in line with the standard Commission procedures.

6.1 Evaluation

Ex-post evaluations of MFA operations are foreseen in the Multi-Annual Evaluation Programme of the Commission's Directorate-General for Economic and Financial Affairs. An ex-post evaluation of the proposed MFA to Moldova will be launched within a period of two years after the availability period has expired. A provision for the ex-post evaluation is included in the proposed Decision for the assistance, and will also be included in the Memorandum of Understanding. Budget appropriations from the macro-financial assistance grant budget line will be used for this evaluation.

6.2 Achieving cost-effectiveness

The proposed assistance would entail a high degree of cost effectiveness for several reasons:

i) Since the assistance would be leveraged by that provided by the international financial institutions, with which, as noted, it would be closely coordinated, its ultimate impact could be very significant compared to its cost. Moreover, in negotiating specific policy conditions, the Commission will be able to draw on the expertise of those institutions, including the IMF and the World Bank, and to influence their conditionality as well in ways that will take into account the EU's views.

ii) Providing coordinated macroeconomic support to Moldova on behalf of the EU countries, the MFA would be more cost efficient than the provision of a similar total amount of financial support by EU Member States individually.

iii) A substantial part of the proposed assistance would be provided in the form of loans, the budgetary impact of which is more limited.

iv) Finally, the Commission will aim at achieving synergies with other EU policies and instruments used to support the implementation by the beneficiary of the relevant measures (notably in the area of PFM).

ANNEX

EUROPEAN EXTERNAL ACTION SERVICE

Head of Division
Eastern Partnership – Bilateral Relations

DIRECTORATE Russia, Eastern Partnership,
Central Asia Regional Cooperation & OSCE

Brussels, 10 December 2021

ASSESSMENT ON DEMOCRACY, HUMAN RIGHTS, RULE OF LAW AND REFORMS IN THE REPUBLIC OF MOLDOVA

The Constitution of the Republic of Moldova (hereinafter Moldova) establishes a state of law governed by principles of the separation of powers, political pluralism, human rights and freedoms, observance of International Law and International Treaties. Today, people in Moldova generally enjoy all major fundamental rights and freedoms. However, the consolidation of democracy and the rule of law needs to continue.

After a prolonged period of political instability, the change of political leadership in Moldova following presidential elections in 2020 and parliamentary elections in 2021 aligned all the main decision-making institutions on a common pro-reform agenda. This brought a positive perspective for the required structural reforms in line with EU-Moldova Association Agreement and its Deep and Comprehensive Free Trade Area. The Moldovan government has proposed an **ambitious reform agenda** *''Moldova in good times 2021-2025''* with key policy areas including good governance, the rule of law, anti-corruption, economic development and a strong commitment to asset recovery and investigation of the 2014 bank fraud. These have been further spelled out in the **Government's Action Plan for 2021-2022**. It has to be noted that the new Government took office during the COVID-19 pandemic and after eight months of interim government's failure to continue reforms, and inherited a governance system significantly influenced by vested interests. The recent energy crisis has added an additional challenge. Nevertheless, the new Moldovan leadership has taken immediate steps to fulfil the obligations towards international development partners. This has allowed them to successfully meet the conditions for disbursement of EU financial support in 2021.

Recent developments

The Association Implementation Report, published on 19 October 2021[3] in advance of the EU-Moldova Association Council, concluded that the early parliamentary elections on 11 July 2021 gave a clear and strong mandate to pro-reform forces to pursue an ambitious reform agenda on fighting corruption, improving the justice system and fighting poverty, with a view to reverse the backsliding in the rule of law standards and reforms registered in 2020.

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[3] https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5368

There is strong commitment to advance on implementation of a comprehensive **justice reform** with a new strategy expected to be adopted before the end of 2021. The Government's programme envisages promoting policies that aim at building an independent, impartial, professional, accountable, efficient and transparent justice sector. In the first 100 days in office, the new Government and Parliament have taken important decisions to advance justice reform. On 23 September 2021, Parliament adopted the amendments to the Constitution aimed at strengthening the independence of the judiciary and bringing in line with European standards a number of aspects concerning judges' careers. The amendments focus on the appointment of judges and the composition and selection process of the Superior Council of Magistracy. As part of further work on justice reform, the authorities foresee to advance on pre-vetting of the new members of Superior Council of Magistracy and the Superior Council of Prosecutors, aimed at ensuring the integrity of the future Council members and, through their role of appointing new judges and prosecutors and conducting disciplinary proceedings, of the overall judiciary system.

With a score of 34, Moldova ranked 115th out of 180 countries in the Transparency International **Corruption** Perception Index in 2020, improving its position compared to 2019 and 2018. Moldova increased the annual budget of its anti-corruption institutions including the National Integrity Authority, the Criminal Asset Recovery Agency and the Financial Investigation Unit. The implementation of the 2017-2020 National Integrity and Anti-corruption Strategy was extended for two years. In May 2020, Moldova joined the peer review programme of the OECD Anti-corruption Network for Eastern Europe and Central Asia (ACN) – the Istanbul Anti-corruption Action Plan (IAP).

Following the parliamentary elections, Moldova has stepped up efforts to prevent and **fight corruption** and has announced zero tolerance for corruption. It has taken decisive and rapid action in this regard. In August 2021, Parliament amended the law to improve the work of the National Integrity Authority regarding assets and conflict of interest declaration. In August 2021, Parliament hastily adopted rather controversial amendments to the law on prosecutors office, including mechanisms to evaluate the activity of the Prosecutor General and to establish his disciplinary liability. The evaluation of the work of the Prosecutor General started in November and is in progress. The criminal investigation started against the Prosecutor General and one of his deputies, aimed to send a signal that impunity is no longer possible.

According to the 2021 report of the United Nations Interregional Crime and Justice Research Institute on **illicit financial flows and asset recovery**, Moldova has invested substantially in policy reform measures to combat corruption, organised crime and illicit financial flows. However, there are still significant opportunities to strengthen and streamline capacity and results in the seizure and confiscation of assets linked to illicit activity. After six years of proceedings in the investigation of the **2014 bank fraud**, none of the major culprits are currently behind bars and the assets lost in the fraud have not been recovered. In 2020 and 2021, trials were repeatedly postponed, charges were dropped against shareholders in the affected banks, and convicted perpetrators were released from prison early. The new Government is commited to addressing this issue as a matter of priority.

Concerning **electoral standards and processes**, according to the OSCE/ODIHR assessment, the latest elections were well administered, competitive and fundamental freedoms were largely respected, although some shortcomings were also observed. For the first time in Moldova's history, a pro-reform party won parliamentary majority, with PAS receiving 52.8% of the votes, winning 63 of the 101 seats in the Parliament. The Central Electoral Commission composition has been renewed, observing a proportional representation of the Parliamentary majority and of the opposition, and is formed of many people with high professional reputation. The Central Electoral Commission as well as the new Parliament and Government have started a revision of the electoral framework, addressing some of the OSCE/ODIHR and Venice Commission recommendations such as financing of political parties and campaigns, complaints mechanism and sanctions. At the same time, as the cancellation of the 2nd round of Balti elections in December proved, further efforts to regulate the electoral process and to bring the electoral legislation in line with international standards are needed.

Even though in 2021 Moldova slightly improved its ranking in the World Press Freedom Index, passing from 91st to 89th place out of 180 countries, **media environment** remains an area where further efforts are needed with a view to enhancing transparency and competition in the sector, creating a business environment conducive to the activity of independent media outlets and offering high quality information to citizens. Initial steps in this direction were made by dismissing the members of the current Audiovisual Council in November 2021, following negative assessment of the Council's activity. Further work is required to ensure full implementation of the Audiovisual Code, the independence and an active role of the Audiovisual Council in ensuring citizens' access to impartial information, including where necessary by applying appropriate sanctions.

The legal framework for **civil society** is finally stable, and there are perspective for good engagement of CSOs with authorities. On 11 June 2020, Parliament adopted the long-pending law on non-commercial organisations, among others, simplifying the registration procedure and eliminating the registration fee. However, financial sustainability of the sector remains an issue, with large dependency of international partners. The new Government programme envisages increasing the **transparency in decision-making** by reviewing the legislative framework on access to information.

EU-Moldova relations

The EU and the Republic of Moldova have developed a close political and economic relationship over the years, leading to the conclusion of the Association Agreement, including the DCFTA (AA/DCFTA), which was signed on 27 June 2014 and entered fully into force on 1 July 2016. An Association Agenda for 2021-2027, setting out the list of priorities for joint work as well as for programming of EU financial support, is under preparation (to follow-up on 2017-2019 document, extended due to the pandemic).

The 6th EU-Moldova Association Council meeting, which took place on 28 October 2021, reaffirmed Moldova's European aspirations, and the joint commitment to further deepen political and economic integration between the EU and Moldova in line with the AA/DCFTA. It also reiterated EU's strong support to Moldova in the face of the evolving gas crisis and the on-going difficult pandemic situation. A new macro-financial assistance programme would thus feature as part of the Union's consolidated assistance to Moldova.

Conclusions

Moldova has a democratic political system based on the rule of law and the respect of human rights and is taking decisive steps to strengthen its democratic institutions and address the serious governance problems. There is a very close framework of bilateral relations between the EU and Moldova under the Association Agreement and the European Neighbourhood Policy.

The renewed reform commitment, and the initial steps already taken, coupled with a strong political will and leadership to make further progress in key reform areas in a transparent manner and in line with European standards, are a positive sign. In this context, the political preconditions for a macro-financial assistance programme are considered fulfilled.

The envisaged financial assistance should help keep the current reform momentum and its effective disbursement will be conditional on continued progress with key reforms. In this context, the European External Action Service stands ready to provide a further detailed assessment of the situation of democracy, human rights, rule of law and reforms in Moldova throughout the lifecycle of the proposed Macro-Financial Assistance operation.