

# SHADOW REPORT

**ASSOCIATION AGREEMENT  
REPUBLIC OF MOLDOVA – EUROPEAN UNION**

**FIVE YEARS OF IMPLEMENTATION (2014-2019)  
PROGRESS. CONSTRAINTS. PRIORITIES.**

Authors: Adrian Lupușor  
Dumitru Pîntea  
Eugen Ghilețhi  
Iulian Groza  
Iulian Rusu  
Stanislav Ghilețchi  
Vadim Gumene



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## About the organisations



**Expert-Grup** is an independent analytical centre (think-tank), specialised in economic research and public policy.

The organisation was established in 1998 and represents a reflection of the ideals shared by a group of young intellectuals from the Republic of Moldova, who created it with the purpose of contribute to the development of the country. The research activity of the Expert-Grup started in 2006.

We position ourselves as a political and ideologically neutral analytical centre, and we do not represent economic, corporate or political interests.

The mission of the organisation is to promote the public interest and to develop efficient and innovative solutions for the development of the Republic of Moldova.



**The Institute for European Policies and Reforms (IPRE)** was established in March 2015 as an independent, non-profit and apolitical analysis and research centre. It is created by a team of national and international experts, former government officials and career diplomats.

IPRE is a member of the National Platform of the Civil Society Forum of the Eastern Partnership ([www.eap-csf.eu](http://www.eap-csf.eu)), co-initiator of the Eastern Partnership Forum of Research Centres (EaP Think-Tank Forum) launched in 2017 in Chisinau.

The mission of IPRE is to accelerate the European integration of the Republic of Moldova by promoting systemic reforms, enhancing participatory democracy and strengthening the role of citizens in national and local decision-making processes.

## Contact details:

**Address:** Alexandru Bernardazzi 45 street  
Chișinău, MD-2012  
Republic of Moldova

**Tel.:** +373 22 929 994

**E-mail:** [info@expert-grup.org](mailto:info@expert-grup.org)

**Web:** [www.expert-grup.org](http://www.expert-grup.org)

**Address:** București 90 street, of. 20  
Chișinău, MD-2001  
Republic of Moldova

**Tel.:** + 373 22 788 989

**E-mail:** [info@ipre.md](mailto:info@ipre.md)

**Web:** [www.ipre.md](http://www.ipre.md)



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## INTRODUCTION

On September 1, 2014, the provisional implementation of the Association Agreement between Moldova and the European Union (AA) was initiated, which was signed on June 27, 2014 and was ratified by the Parliament of the Republic of Moldova on July 2, 2014. Several months later, on November 13, 2014, the new Agreement with the Republic of Moldova was also ratified by the European Parliament. Starting January 1, 2016, the provisions of the Association Agreement began to be implemented throughout the country, including in the Transnistrian region. On June 1, 2016, the Association Agreement entered into full force, with the completion of the procedures for its approval by the national Parliaments of the Member States of the European Union.

The Association Agreement with the European Union is the main legal, institutional and policy framework that influences the development agenda of the Republic of Moldova in the medium and long term from a political, economic and social point of view. Since the EU is the main trading partner of the Republic of Moldova, the liberalisation of trade and the establishment of the Deep and Comprehensive Free Trade Area (DCFTA) was a logical and necessary step in order to capitalise on the competitive potential of the Moldovan economy. Most of the ex-ante estimates regarding the impact of the DCFTA suggested a net positive effect, due to the growth of exports, of the economy as a whole, of employment, wages, consumption and the well-being of the population respectively. At the same time, certain risks were hovering over the less competitive sectors - in particular, the agri-food sector, which could have suffered some competitive shocks following the liberalisation of bilateral trade with the European Union.

The fifth anniversary of the provisional application of the Association Agreement, marked on September 1, 2019, is an opportunity for reflections on the preliminary recorded results, but also on the constraints that have influenced the implementation process. Moreover, considering that, in the current year, the initial deadline for the accomplishment of the EU-Moldova Association Agenda (2017-2019) (AAG) expires, which includes the short and medium term priorities, the analysis of the five years of achievement of the AA commitments is an opportunity to suggest to the national authorities, but also to the EU, some new priorities for the next period. Especially since Brussels and Chisinau have begun the process of reviewing the priorities set by the current Association Agenda, on the occasion of the EU-Moldova Association Council held on September 30, 2019.

In this context, the Institute for European Policies and Reforms and the Expert-Group have prepared this Alternative Report, which provides an unbiased view on the evolution of the EU-Moldova dialogue, while **reflecting the most important progress** in implementing the commitments undertaken by the Republic of Moldova, as well **the main constraints** that did not allow the full use of the Association Agreement. Lastly, based on the findings, a series of **strategic priorities** were formulated, as a recommendation, in the direction of which efforts should be strengthened in the next period. The findings of the report can also provide added value in the context of evaluating the 20 Deliverables of the Eastern Partnership by 2020 and setting priorities for the coming years.

The report represents a qualitative evaluation of the developments recorded during September 1, 2014 - September 1, 2019 in the main sectors with spill-over effect, provided for by the five titles of the Association Agreement, namely: Title II - Political dialogue and reforms, Title III - Freedom, Security and Justice, Title IV - Economic and sectoral cooperation, Title V - Trade and trade related matters (DCFTA), Title VI - Financial assistance, anti-fraud and control provisions.

This Alternative Report was prepared following a thorough analysis of the institutional and legal framework, the reports on the implementation of the Association Agreement and other national policy documents, published by the authorities of the Republic of Moldova and the institutions of the European Union. Alternative evaluations conducted over the last five years have also been used. The draft report was discussed and revised in the validation meetings and focus groups organized on October 8-24, 2019 with the participation of representatives of national authorities and non-governmental actors.



## EXECUTIVE SUMMARY

After five years of implementation of the Association Agreement, today the sectoral cooperation between the European Union and the Republic of Moldova is further strengthened, in particular in the fields of research, innovation and education. The benefits were also enhanced by the visa-free regime with the EU, launched on April 28, 2014. Cooperation in the field of foreign policy and security has been deepened. However, the functioning of democratic institutions, the strengthening of the rule of law and the independence of justice have not undergone clear changes, which has severely affected the quality of the EU-Moldova dialogue, implicitly the full use of European support.

Despite these constraints, due to the Deep and Comprehensive Free Trade Area (DCFTA), the Republic of Moldova has come significantly closer economically to the European Union. The EU has become the country's main economic partner. Today, about 70% of Moldovan exports are directed to the European Union market, and imports represent almost 50%. The net impact of exports to the EU is estimated at over 367 million euros, contributing to the creation of over 15,000 jobs and helping increase the budget revenues by 5% and by 320 million euros in investments in the private sector.

However, the potential offered by the Association Agreement and by the Deep and Comprehensive Free Trade Area is yet to be harnessed. The key to progress in this regard remains the existence of a clear and consistent political will in implementing all the provisions of the Association Agreement. And this means that the results of the transformations must contribute to the sustainable development of the country, bring more visible benefits to the citizens and help the continuous integration of the Republic of Moldova with the European Union.

## TITLE II: POLITICAL DIALOGUE AND REFORMS

At the beginning of the implementation period, the relations with the EU were characterized by a high level of trust, capitalising on the so-called "success story" of the Republic of Moldova. However, with the public exposure of banking fraud at the end of 2014, which revealed internal systemic problems and generated several chain crises, the EU-Moldova relations entered a precautionary and uncertainty phase. For a short period, during 2016, the political dialogue seemed to normalize, being dictated by a pragmatic approach of the European Union, based on strict conditionalities. However, starting with 2017, due to the internal involutions and lack of will necessary to promote systemic reforms aimed at strengthening the democratic institutions and the rule of law, the dialogue has slowed down. In 2018 it was even frozen due to the democratic backsliding in the Republic of Moldova. Since June 2019, the EU-Moldova relations have been revived. This happened with the emergence of a new parliamentary majority in Chisinau, following the legislative elections of February 2019 and, respectively, the investment of a pro-reform government with a clear agenda of restoring democratic institutions and promoting the justice reform.

In the field of **human rights**, there have been some developments that have focused on the policy and institutional frameworks. Following the second cycle of universal periodic evaluation, although with some delays, a new National Plan in the field of Human Rights for 2018-2022 was nevertheless promoted and the National Council for Human Rights was created. The role of the People's Advocate was strengthened, in 2019 being accredited with the "A" Status in accordance with the Paris Principles. The Equality Council has managed to become an independent institution, oriented towards promoting non-discrimination and equality. The rights of national minorities have been strengthened through policy documents. The role of the Governmental Agent in monitoring and enforcing ECtHR decisions has been improved. The Council for the Prevention of Torture was created, and its activity strengthened as a national mechanism for the prevention of torture. However, the relatively large number of convictions of the Republic of Moldova by the ECtHR, the emblematic cases of torture and the illegal expulsions of foreign citizens highlight the need for additional efforts at national level aimed at strengthening the role, capacities and instruments of the institutions that are part of the system of protection of human rights.

**The prevention and fight against high-level corruption** has been mostly characterized by selective justice practices or by lack of conclusiveness, and this has happened despite the improvement of the normative and institutional framework, with the creation of the Anti-corruption Prosecutor's Office and by reforming the integrity system. Several efforts aimed at police reform were supported, including by the development partners. But the depoliticization of law enforcement agencies and their proximity to citizens remains a backlog, and therefore an important priority.

Probably, the most positive developments are noted in **the EU-Moldova cooperation in the field of foreign and security policy**. Here we mention, in particular, the alignment of the Chisinau authorities to most of the EU declarations and the CFSP Decisions (approx. 71%), the continuous participation in the EU Crisis Management Missions (in particular, EUTM Mali), the conclusion of the EU-Moldova Agreement on security procedures for the exchange of classified information, creation of conditions to strengthen the dialogue in the field of security, by selecting the Republic of Moldova as a pilot country to be offered EU support in the evaluation and prevention of hybrid threats. The jurisdiction of the International Criminal Court has been extended to the Republic of Moldova. The role of the EUBAM Mission has been strengthened in the field of assistance in managing the Moldovan-Ukrainian border, in particular on the Transnistrian segment, and its mandate has been extended.

In the area of **regional stability**, moderate developments are noted, in particular, in terms of promoting the confidence measures between Chisinau and Tiraspol. The contacts at political and operational level within the sectoral working groups have intensified. Negotiations in the "5 + 2" format continued, albeit with reduced frequency. However, there is no progress in the negotiations on the political settlement of the conflict: the third negotiation package has not been opened, and the Tiraspol authorities have hampered the resolution process by increasing the number of military exercises with the participation of GOTR troops of the Russian Federation, carried out including in the security area. At the international level, the Republic of Moldova, supported by the European Union, promoted the UN Resolution on the complete and unconditional withdrawal of foreign military forces from the territory of the country. However, at national level, it was not possible to develop and promote a single vision on the settlement of the Transnistrian conflict and the reintegration of the country.

### TITLE III: FREEDOM, SECURITY AND JUSTICE

Many of the actions directly or indirectly related to the field of visa liberalization have provided good results at the provisional entry into force of the Association Agreement. Thus, the areas related to **border management, migration and asylum** registered, on the date of obtaining the visa-free regime - April 28, 2014 - a consolidated institutional and policy framework. Among the most important achievements of this sector are: the creation of the Border Police; opening of several common border crossing points with Ukraine, including on the Transnistrian segment; joint patrol of the Moldovan-Romanian border; implementation of integrated border management Strategies in the field of migration and asylum; empowering the Migration and Asylum Bureau with infrastructure and personnel to document foreign citizens, ensure their integration, including temporary placement in the case of asylum and international protection seekers.

Five years after the entry into force of **the visa-free regime**, over 2.1 million citizens of the Republic of Moldova (over 60% of the population) travelled without a visa to the Schengen area, with the rates of refusal and illegal stay being reduced (0.3% and 0.5%, respectively, of the total number of visitors). The readmission mechanism works efficiently and is encouraged to continue. Through joint efforts with the countries of destination, the duration of examination of asylum applications has been reduced, and this has diminished the monetary interest mainly related to allowances, which means reducing the number of applications in the future. At the time of the provisional entry into force of the Association Agreement, the regulatory, planning and institutional framework in the field of **personal data protection** already existed, including the Law on the protection of personal data and the Centre for personal data protection.

**The justice sector** has made progress on some specific areas, such as case management, approval of the selection, promotion, appointment and sanctioning framework within the SCM and SCP. At the same time, the sector was shaken by the involvement of a significant number of actors in the "Russian laundromat" and in the controversial decision to cancel the new elections in Chisinau, held in June 2018. The promotion of several actions to ensure independence in the justice sector did not succeed, even though over 86% of the actions planned in the Sector Reform Strategy were reported as being implemented. Institutional improvements were promoted with the adoption of the Law on the Prosecutor's Office and the Law on specialized prosecutors' offices, but there were doubts as to appointment of the Prosecutor General. Furthermore, the Prosecutors' Inspection remained under the subordination of the Prosecutor General, which fuelled in the public numerous suspicions related to the lack of independence and political control over the Prosecutor's offices and the courts. A reform of the justice sector was initiated at the end of August 2019.

**Corruption is still perceived as the main problem of the society**, and the corruption perception index has worsened since the provisional entry into force of the Association Agreement (from a score of 35 to 33, according to "Transparency International"). However, public policy actions have been taken, the activity of the Anti-Corruption Prosecutor's Office and the NAC offering a number of cases that have been investigated and referred to justice. It is essential to review the competences of the bodies responsible for fight against corruption and to strengthen prevention tools, such as integrity whistle-blowers. **The money laundering and prevention sector** has the institutional and legislative framework harmonized with the EU Directive 2015/849 since the end of 2017. The Financial Intelligence Unit (SPCSB), as well as other involved authorities have approved specific regulations to identify and report suspicious transactions.

#### TITLE IV: ECONOMIC AND SECTORIAL COOPERATION

The moderate progress related to Title IV of the Association Agreement was overshadowed by the way initiatives were promoted, many draft decisions being approved in a hurry, without a broad impact analysis exercise, in several cases ignoring the principles of public consultations. An initiative that - both with the annulment of the elections for the position of mayor of Chisinau - hit hard in relations with foreign partners was the Law on voluntary declaration and fiscal stimulation (capital amnesty), which returned to the agenda after a first failure registered at the end of 2016. The latter law had an economic impact incomparable to the image risks and the discouraging effect on the good faith taxpayers.

**The public administration reform**, although implemented hastily and with little transparency, has made moderate progress in terms of strengthening the institutional capacity of the public administration, implementing policies and efficient use of budgetary resources, and providing high quality services for all citizens. The reorganization of the ministries and public institutions, as well as the improvement of the motivation mechanism for the public service personnel are, to a large extent, the elements that have generated these advances. However, the public administration reform will not be successful unless additional efforts are made to strengthen institutions and business processes in both central and local public authorities.

The constant improvement of the budgetary discipline is worth mentioning. In 2018, for the first time in the last seven years, the Budget for 2019 was approved within the deadline set by the legislation. The budgetary discipline is observed not only when it comes to deadlines, but also in the case of public debt thresholds. The maximum ceiling of the budget deficit in a single year, introduced in 2015, was strictly adhered to during this period. Despite this progress, the analytical capacities of the Ministry of Finance are insufficient, which is an obstacle in carrying out comprehensive tax reforms, but also in creating an independent fiscal council.

The agri-food production sector - which is one of the main beneficiaries of trade liberalization between the Republic of Moldova and the European Union - has received significant support as a result of tariff exclusion and tariff liberalization of exports. De facto, the Association Agreement eliminated the tariff barriers for more than 90 percent of the domestic products. Without placing a strong emphasis on private investments to increase the added value of the exported products, in the absence of the optimal framework for the export of products of animal origin, the effect of exclusion of tariffs will be limited in the medium and long term.

Another important area for the Republic of Moldova is transport. During the reference period, financial allocations for both the improvement of national roads and for the repair of local arteries have increased. The works were not always of high quality, an example in this respect being the rehabilitations within the "Good Roads for Moldova" Programme. In the area of air transport, we emphasize a very rapid increase in passenger traffic, which grew by more than 60% compared to 2014. This increase was possible with the entry of low-cost operators, but due to the expansion of the Chisinau International Airport, under the concession contract. The contract in question has recently become a focal point for discussions in the public and parliamentary agenda, its renegotiation becoming an imperative for the new Government.

Accelerating the process of transposition of EU directives and their implementation must become a cross-cutting priority for all areas. Because, despite the existence of a large number of strategic and planning documents, in many areas the results are not showing up. Strengthening institutions and improving interinstitutional cooperation are essential preconditions for this process.

#### TITLE V: TRADE AND TRADE RELATED MATTERS (DCFTA)

Even though the first years of the DCFTA were marked by serious economic and political problems, which affected the domestic demand and the confidence of the business community, the Moldovan exports to the

European market registered a positive trend. The exports of agri-food products benefited the most from the new trading regime, including categories of products that are subject to tariff quotas. Despite the impressive growth of exports, there are also a number of concerns regarding their concentration both in geographical profile and in terms of the structure of exported products. This is aggravated by the fact that the given exports include a rather low added value (either primary agricultural products or industrial products processed under the *lohn* regime), which highlights the low level of competitiveness of the domestic producers and which, in turn, further undermines the sustainability of recorded export growth.

At the same time, despite the numerous speculations that anticipated an alleged invasion of imports from the European Union on the market of the Republic of Moldova, this did not take place, being registered even a decrease in the reference period. As a result, in 2018, there was a decrease, compared to 2014, of the imbalance in trade between the Republic of Moldova and the EU, with the trade balance deficit reduced by 25%.

At the same time, sustained efforts have been made in the part of the transposition of the horizontal legislation covering the general methodology and the institutional configuration in the field of technical barriers to trade (TBT). Although the institutional framework for quality infrastructure has continued to be reformed, a comprehensive strategy to restructure the entire system is lacking, and the process of transposition of sectoral directives is a cumbersome one, as is the process of aligning secondary legislation with the new primary legal framework.

Most of the time, the problem lies in the institutional capacity of the authorities, which remains quite weak and where human resources are either limited or lack the necessary training. At the same time, there is a rather low level of implementation of European standards, due to the costs associated with adopting the standards at the company level and which reduce their attractiveness in favour of GOSTs, which are still used.

In the customs area, several actions have been taken to implement the concept of authorised economic operator (AEO) and electronic customs declarations; to ensure the protection of intellectual property rights and tobacco control; to promote the concept of a one-stop shop and introduce anti-corruption measures. Also, new rules of origin of goods were adopted, according to the regional Convention on the pan-Euro-Mediterranean preferential rules of origin, which introduced the concept of diagonal cumulation. At the same time, the approval of the new Customs Code is delayed, but also of the legal framework related to the respective Code. And the usefulness of the AEO concept is, for the moment, undermined by the European side's non-recognition of its status. Likewise, a major challenge remains to strengthen the infrastructure of the customs posts, but also to streamline the measures aimed at the integrity of the Customs Service.

Exports of agri-food products from the Republic of Moldova benefited more from the DCFTA compared to those of industrial products. During this period, an important act was adopted for the agri-food sector, namely the National Food Safety Strategy for 2018-2022. This is the first strategic document describing the national food safety framework, as well as the main obstacles in this area. One of the major objectives, in this context, is to expand the list of products of animal origin with right to export on the EU market, with the attainment of the right to export eggs and, subsequently, poultry meat, an action that the authorities have for several years in a row promised to accomplish.

In the field of competition, the enforcement of legislation seems to have improved, with an increase of identified cartels, as well as of the number of applied fines. The amendments of the Criminal Code to allow the application of the leniency policy, provided for in the Competition Law, have not yet brought tangible results on problematic markets, such as oil, pharmaceutical or insurance products. In addition, in order to build confidence in the institutional capacity of the Competition Council to promote healthy competition, it is essential to publish the results of the investigations carried out by the Council.

The most visible advances in the field of financial services were registered in the banking sector - both on the transposition side and on the implementation of the European legislation by banks. Thus, the Basel III regulatory regime was transposed through a new banking law and a series of related regulations. In addition, the events of 2014-2015 determined the acceleration of the transposition of the mechanism of prevention and management of systemic crises - respectively, the Law on Bank Recovery and Resolution. The pace of transposition of the directives and the development of the financial system, by boosting the insurance sector, the capital market and the pension system, must remain a priority for the political environment.

The connection of the national public procurement system with the European norms derives largely according to the requirements and the established timetable. The institutional framework was completed with an independent and autonomous dispute resolution body - the National Agency for the Settlement of Disputes. The national legislation in this field also corresponds to the main European directives. Priority remains the full implementation of the MTender electronic public procurement system and the enhancement of the institutional and human capacities of all contracting entities, including central entities, such as the Public Procurement Agency.

## TITLE VI: MACROFINANCIAL ASSISTANCE, ANTI-FRAUD AND CONTROL PROVISIONS

The European Union is the main development partner of the Republic of Moldova. The key objective of EU assistance is for European support to contribute to creating tangible benefits for Moldovan citizens, strengthening the rule of law, capitalising on the opportunities of the Deep and Comprehensive Free Trade Area with the EU (DCFTA), as well as strengthening transport and energy connections.

The assistance of the European Union is provided on the basis of strict conditionalities, closely linked to the results of the reform process, respect for democratic principles, the rule of law and human rights. This principle has been applied consistently in the case of the Republic of Moldova, in particular with regard to budget support programmes and macro-financial assistance. Starting with 2015, the allocation of European funds has been suspended or even cancelled. In 2018, the European Commission decided to recalibrate the assistance and its reallocation, respectively, to support other local actors, namely various reform organizations, focusing on civil society, the media, SMEs and local public authorities.

In 2017, the European Union decided to offer the Republic of Moldova a macro-financial assistance programme worth 100 million euros, which includes 40 million in the form of a grant and 60 million in preferential credit. Now, the authorities are making efforts to fulfil the necessary conditions to obtain the first instalments of this assistance, after its suspension in mid-2018.

In addition to the development assistance provided by the EU member states, the Republic of Moldova also benefits from other thematic assistance programmes - in the field of human rights and strengthening of civil society. Additionally, the country receives funds from regional programs under the Eastern Partnership. For example, the EU4Business programme, worth 200 million euros, supports the business environment in the Republic of Moldova, the development of SMEs and access to finance and skills. Moreover, Chisinau participates in EU cross-border cooperation (CBC) programmes, such as the Black Sea Programme, the CBC Romania-Moldova-Ukraine Programme and the INTERREG Programme. EU support is also provided through projects of [high-level counselling from EU experts in implementing AA](#).

The EU also supports the Republic of Moldova through joint investment programmes with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Our country participates in the Partnership for Energy Efficiency and the Environment in the East (E5P), and the EIB also supports the development of the agri-food sector. "Filière-du-vin" and "Fruit Garden Moldova" are two emblematic investment projects, implemented in response to the numerous trade embargos imposed by the Russian Federation.

The European Union has improved its communication and visibility activities in the Republic of Moldova. In 2018, the EEAS adopted the Communication and Visibility Requirements. The EU delegation in Moldova paid special attention to informing about the actions carried out and those implemented in Moldova and intensified the regional and local mobilization activities, targeting local CSOs, local authorities, rural and regional development.

**EU-Moldova cooperation in the field of anti-fraud and control** over the management and implementation of EU funds was strengthened in 2014-2019. The strategic and operational collaboration of the Government of the Republic of Moldova with the relevant European agencies - in particular, the National Anti-Corruption Centre and the European Anti-Fraud Office (OLAF), played a special role in this regard. Following the criminalisation, in the national legislation, of fraud with the involvement of external funds, the NAC carries out strategic and operational analyses, after which, in cooperation with the Anti-corruption Prosecutor's Office, initiates criminal cases that require additional efforts to ensure the finality of the investigations with the criminal prosecution of involved persons. From an institutional point of view, the Republic of Moldova has improved its system of integrity and recovery of criminal assets through the creation of ANI and ARBI. However, additional measures are needed to strengthen the capacity of these authorities to act more decisively and efficiently.

## 1. TITLE II - POLITICAL DIALOGUE AND REFORMS, COOPERATION IN THE AREA OF FOREIGN POLICY AND SECURITY

### CONTEXT

The results obtained in fulfilling the commitments relevant to this title were generally moderate. The main challenge refers to how **the EU-Moldova political dialogue** has evolved.

At the beginning of the implementation period, the relations with the EU were characterized by a high level of trust, capitalising on the so-called "success story" of the Republic of Moldova. However, with the public exposure of banking fraud at the end of 2014, which revealed internal systemic problems and generated several chain crises, the EU-Moldova relations entered a precautionary and uncertainty phase. For a short period, during 2016, the political dialogue seemed to normalize, being dictated by a pragmatic approach of the European Union, based on strict conditionalities. However, starting with 2017, due to the internal involutions and lack of will necessary to promote systemic reforms aimed at strengthening the democratic institutions and the rule of law, the dialogue has slowed down. In 2018 it was even frozen due to the democratic backsliding in the Republic of Moldova. Since June 2019, the EU-Moldova relations have been revived. This happened with the emergence of a new parliamentary majority in Chisinau, following the legislative elections of February 2019 and, respectively, the investment of a pro-reform government with a clear agenda of restoring democratic institutions and promoting the justice reform.

In the field of **human rights**, there have been some developments that have focused on the policy and institutional frameworks. Following the second cycle of universal periodic evaluation, although with some delays, a new National Plan in the field of Human Rights for 2018-2022 was nevertheless promoted and the National Council for Human Rights was created. The role of the People's Advocate was strengthened, in 2019 being accredited with the "A" Status in accordance with the Paris Principles. The Equality Council has managed to become an independent institution, oriented towards promoting non-discrimination and equality. The rights of national minorities have been strengthened through policy documents. The role of the Governmental Agent in monitoring and enforcing ECtHR decisions has been improved. The Council for the Prevention of Torture was created and its activity strengthened as a national mechanism for the prevention of torture. However, the relatively large number of convictions of the Republic of Moldova by the ECtHR, the emblematic cases of torture and the illegal expulsions of foreign citizens highlight the need for additional efforts at national level aimed at strengthening the role, capacities and instruments of the institutions that are part of the system of protection of human rights.

**The prevention and fight against high-level corruption** has been mostly characterized by selective justice practices or by lack of conclusiveness, and this has happened despite the improvement of the normative and institutional framework, with the creation of the Anti-corruption Prosecutor's Office and by reforming the integrity system. Several efforts aimed at police reform were supported, including by the development partners. But the depoliticization of law enforcement agencies and their proximity to citizens remains a backlog, and therefore an important priority.

Probably, the most positive developments are noted in **the EU-Moldova cooperation in the field of foreign and security policy**. Here we mention, in particular, the alignment of the Chisinau authorities to most of the EU declarations and the CFSP Decisions (approx. 71%), the continuous participation in the EU Crisis Management Missions (in particular, EUTM Mali), the conclusion of the EU-Moldova Agreement on security procedures for the exchange of classified information, creation of conditions to strengthen the dialogue in the field of security, by selecting the Republic of Moldova as a pilot country to be offered EU support in the evaluation and prevention of hybrid threats. The jurisdiction of the International Criminal Court has been extended to the Republic of Moldova. The role of the EUBAM Mission has been strengthened in the field of assistance in managing the Moldovan-Ukrainian border, in particular on the Transnistrian segment, and its mandate has been extended.

In the area of **regional stability**, moderate developments are noted, in particular, in terms of promoting the confidence measures between Chisinau and Tiraspol. The contacts at political and operational level within the sectoral working groups have intensified. Negotiations in the "5 + 2" format continued, albeit with reduced frequency. However, there is no progress in the negotiations on the political settlement of the conflict: the third negotiation package has not been opened, and the Tiraspol authorities have hampered the resolution process by increasing the number of military exercises with the participation of GOTR troops of the Russian Federation, carried out including in the security area. At the international level, the Republic of Moldova, supported by the European Union, promoted the UN Resolution on the complete and unconditional withdrawal of foreign military forces from the territory of the country. However, at national level, it was not possible to develop and promote a single vision on the settlement of the Transnistrian conflict and the reintegration of the country.

## EU-MOLDOVA POLITICAL DIALOGUE

### PROGRESS

The signing of the Association Agreement, on June 27, 2014 and the initiation of its provisional application starting September 1, 2014, laid the foundations for the political association and economic integration of the Republic of Moldova with the European Union - key objectives of the Eastern Partnership, which were established five years earlier at The Prague Summit. Under these conditions, the EU-Moldova political dialogue was deepened at the level of the bilateral structures that ensure the implementation of the Association Agreement, as well as within the multilateral ones of the Eastern Partnership.

After five years, the Republic of Moldova has approached economically significantly with the EU, thanks to the Deep and Comprehensive Free Trade Area (DCFTA). Sectoral cooperation - in particular in the field of energy, transport and research - has advanced, benefiting including from the initiatives promoted within the Eastern Partnership. At the same time, the Association Agreement offered new opportunities for cooperation in the field of foreign and security policy with the EU. Cooperation in the field of justice and home affairs has been strengthened through EUROPOL, EUROJUST, FRONTEX. About 40% of the EU acquis provided by the Association Agreement is transposed into national law. However, the main challenge remains the effective implementation of the new legislation.

The level of support from citizens in relation to the EU has strengthened after the end of 2014. This fact is also confirmed by independent opinion polls. Indeed, IRI surveys from 2015-2019 show an increase in public support for the EU in the Republic of Moldova - from 38% in October 2015 to 47% in July 2019. The main explanation is that in recent years - in particular, after 2016 -, the EU has adjusted its approach in relation to the Republic of Moldova, becoming more sharpened in the dialogue with the Government and consistently applying the principle of strict conditionality in carrying out reforms that will bring tangible benefits for citizens.

### CONSTRAINTS

The quality and spirit of EU-Moldova political relations were strongly influenced by the slow course of reforms in the rule of law and the functioning of democratic institutions sector, evaluated by the EU in the light of the principle of strict conditionality of the support provided to the Republic of Moldova.

Thus, the dialogue registered a different intensity, achieving a complete circle in this period - from a relationship based on trust, built on the wave of the so-called "success story", to uncertainty and disappointment in 2015, due to the bank fraud that has revealed serious breaches of the financial, political and legal systems. After the conditioned pragmatism of 2016, the degree of distrust of the EU in relation to the Chisinau authorities began to deepen. This happened especially after the reform of the electoral system, promoted by ignoring the key recommendations of the Venice Commission. And after the controversial cancellation of the local elections in Chisinau, in the summer of 2018, the EU-Moldova high-level political dialogue was almost frozen.

At that time, the EU institutions adopted a consensus decision to suspend the assistance provided to the Government and to redirect it to support civil society, the media, local authorities and SMEs. Only in the middle of June 2019, with the creation of a new parliamentary majority (by two political forces with different ideological and geopolitical visions) and after the appointment of a new Government that was committed to reforming justice and restoring the rule of law, a new window of opportunity appeared to relaunch the EU-Moldova dialogue and to advance the implementation of the Association Agreement. A chance that cannot be missed.

### PRIORITIES

Given the existence of this new window of opportunity to deepen the EU-Moldova relations, the following short- and medium-term priorities are proposed:

- 1. Reassessment of arrears and establishing a short list of priorities in implementing the Association Agreement**, correlated with the EU financial and technical assistance available to advance key reforms that will produce tangible effects for citizens, while maintaining the principle of strict conditionality.
- 2. Initiation of consultations for the revision and updating of the EU-Moldova Association Agenda.**
- 3. Advancing at least three priority topics in dialogue with the EU:** (a) Obtain EU support for justice reform and fighting corruption, in particular with regard to evaluation and selection within the justice and the law enforcement bodies; (b) ensuring the energy security of the Republic of Moldova; and (c) launching a structured dialogue in the field of security.
- 4. At national level, the establishment of an ad hoc Strategic Communication Task Force** dedicated to strengthening the EU-Moldova relations, coordinated by the Ministry of Foreign Affairs and European integration.

## HUMAN RIGHTS

### PROGRESS

The Republic of Moldova is part of the Universal Periodic Evaluation (UPE) mechanism on the observance of human rights, in accordance with Resolution 5/1 of the UN Human Rights Council (HRC). In November 2016, the National Report was prepared following the second evaluation cycle, which included 213 recommendations, of which the Republic of Moldova accepted 194 and noted 19. In July 2019, the Ministry of Justice prepared the Voluntary Interim Report on the recommendations made following the second cycle of UPE.

In 2015, the Law on the Government Agent was adopted, which provided for a new mechanism to ensure compliance with the European Convention on Human Rights and to enforce the decisions of the European Court of Human Rights. The independence of the People's Advocate Institution was strengthened in accordance with the recommendations of the Venice Commission, by amendment to the Constitution of the Republic of Moldova. In 2019 the Office of the Ombudsman was accredited with the "A" Status in accordance with the Paris Principles. In 2016, a new National Mechanism for the Prevention and Fight against Torture was created and strengthened by the creation of the National Council for the Prevention of Torture. In this context, it is important to ensure the conditions for the efficient functioning of the Council and discourage legislative initiatives that would provide for its termination. In July 2018, four years after the expiration of the second NHRAP, a new NHRAP for years 2018-2022 was adopted. In February 2019, the National Human Rights Council was established. In September 2018, the Optional Protocol to the UN Convention on the Rights of Persons with Disabilities was signed and will be ratified. This is one of the main measures provided by the National Program for Social Inclusion of Persons with Disabilities for the years 2017-2022. Additionally, the human rights policy framework, namely, by adopting the Strategy and Action Plan for the protection of the child (2016-2020); the Strategy for strengthening interethnic relations (2017-2027) and the Action Plan on the implementation of the Strategy (2017-2020); of the Action Plan on supporting the Roma population (2016-2020).

### CONSTRAINTS

Despite the measures taken at national level to prevent and fight torture, the Republic of Moldova continues to be frequently convicted at the European Court of Human Rights for torture and ill-treatment. In the last five years, the European Court has issued 109 judgments regarding the violation of Article 3 of the European Convention for Human Rights by the Republic of Moldova, which represents about 28% of the total number of found violations. The case "Andrei Brăguță" highlighted several deficiencies existing in the system of prevention and fight against torture and ill-treatment. Another emblematic case concerns the expulsion, at the beginning of September 2018, of seven Turkish citizens by the Moldovan authorities, an action for which, in June 2019, the Republic of Moldova was found guilty by the ECtHR. There is a lack of progress on the construction of a new penitentiary. The National Council for the Prevention of Discrimination and Equality (the Equality Council), created in 2013, has strengthened its role in carrying out the mission of preventing and protecting against discrimination, ensuring equality, and promoting equal opportunities and diversity. However, measures are needed to better regulate the competence and instruments of the Council in carrying out its mission, among others the right of the institution to refer to the Constitutional Court. In this respect, the adoption of the draft law drafted in 2017 and approved by the Government in July 2018, is still pending. At the same time, the Council continues to face the problem of staff shortage.

Freedom of association is another area that needs more attention from the authorities. In this respect, it is a priority to ensure a favourable climate for the functioning and activity of civil society by adopting the new Law on non-commercial organizations.

### PRIORITIES

1. **Implementation of NHRAP III (2018-2022),** including by ensuring the functioning of the Human Rights Council, implicitly by operationalising the activity of the Council.
2. **Adoption in final reading of the legislation on criminalization of offenses committed for reasons of prejudice, contempt or hatred,** in accordance with international standards.
3. **Amendment of the legislation in the field of equality and non-discrimination in order to increase the efficiency and strengthen the role of the Equality Council,** including by giving the right to refer to the Constitutional Court and to directly apply sanctions for acts of discrimination.
4. **Creating the necessary conditions for the proper functioning of the Office of the Ombudsman, in particular by assigning a new office.**
5. **Strengthening the mandate and clarifying the status of the Council for the Prevention of Torture.**
6. **Adoption in final reading of the Law on non-commercial organizations.**

## INTERNAL AFFAIRS

### PROGRESS

During the reference period, several policy documents relevant to the strengthening of internal affairs, security and public order in the Republic of Moldova were promoted. Thus, the National Strategy for Public Order and Security for the years 2017-2020 and the Plan for its implementation were promoted. Also, the Police Development Strategy (2016-2020) and the Implementation Plan was adopted, supported by the EU through the Budget Support Programme, with an indicative budget of 51 million euros, plus 6 million euros, as technical assistance. In 2018, the Twinning Project "Reform of the initial and continuous training of the police system in the Republic of Moldova" was launched. Additionally, the Concept on Community Police Activity and its Implementation Plan for the years 2018-2020 were adopted and are currently implemented. An Anti-corruption Section was created and operationalised within the Directorate of Inspection of the General Police Inspectorate Personnel. Also, minimum standards of preventive detention conditions within the police were developed and approved.

The Strategy of reform of the Carabineer Troops and the Implementation Plan for years 2017-2020 were adopted. In this context, the Law on the General Inspectorate of Carabinieri and the Concept of professionalising the term military personnel of the carabinieri troops was adopted. In 2017, the period of implementation of the National Strategy for preventing and fighting organised crime was extended until 2019 and a new Strategy Implementation Plan was adopted.

The EU-Moldova police and strategic cooperation in the field of organised crime is attained via EUROPOL. In 2017, the Republic of Moldova signed the accession agreement to the EUROPOL SMOKE project. The contact point of the Republic of Moldova at EUROPOL ensures the cooperation and exchange of information with the EU member states through the SIENA system.

### CONSTRAINTS

Despite a consolidated normative and policy framework, supported by development partners, including by the European Union, the main challenge in carrying out reforms in the internal affairs sector is to ensure the police activity outside the political influence, professionalisation of the staff and transparent financing. While evaluating the police activity during the last years, more efforts are required to prevent and exclude the abuses and the vicious practices of involving the police institution in unsanctioned special investigative measures and of tracking the natural and legal persons. Moreover, strengthening the image of the police in the community is a priority and must be achieved including via continuing the regionalization of the services and the implementation of the Concept on the activity of the community police.

During the reference period, the organisational and functional reform of the Ministry of Internal Affairs was carried out as an authority of policy development and coordination. However, actions are still needed for the institutional development of the Police, through the development and adoption of a new Regulation on the organisation and functioning of the General Police Inspectorate and the implementation of other relevant measures provided in the Police Development Strategy (2016-2020). Efforts are necessary to implement the new Law on the General Inspectorate of Carabinieri. Integrated interoperability and coordination capabilities in the field of security and public order assurance are to be strengthened, including through the implementation of the concept of *intelligence-led policing*. Finally, the Moldovan authorities will ensure the implementation of the necessary conditions absorb the technical assistance, including direct EU budget support aimed at supporting the reform in the internal affairs sector.

### PRIORITIES

The completion of the police reform and the strengthening of public order and security are to be found among the short- and medium-term priorities, and should focus in particular on the following:

- 1. Implementation of the relevant national policy documents to access the EU budget support programme funds available for the police reform.**
- 2. Reorganisation of the General Police Inspectorate** in accordance with the Police Development Strategy.
- 3. Implementation of the Law on the General Inspectorate of Carabinieri.**
- 4. Operationalisation of the National Centre for Integrated Coordination of Public Order Actions.**
- 5. Implementation of the Concept on the activity of the Community Police.**
- 6. Creation of a Council with the participation of civil society organizations that will ensure the monitoring and functioning of the Police,** based on a regulation approved by Government decision.

## FIGHTING HIGH LEVEL CORRUPTION

### PROGRESS

In the last three years, the Anti-Corruption Prosecutor's Office handled, on average, about 750 cases annually, received from the NAC and about 350 criminal cases initiated as a result of the directly received notifications. Important cases include criminal prosecution on certain episodes of "Russian laundromat" and the "bank fraud"; money laundering cases, including the use of crypto-currency; issuance of manifestly illegal judgments involving five judges, a prosecutor, a lawyer and a doctor; as well as other cases involving persons with public functions.

More information, which became public at the end of August 2019, confirms the existence of criminal cases on behalf of former politicians with a controversial reputation, such as Vladimir Plahotniuc.

Two parliamentary commissions of inquiry initiated in June 2019 the investigation of the "bank fraud" and the cases of privatization and/or concession of several public assets. The data presented are inconclusive, as the parliamentary inquiry continues.

The National Integrity and Anti-corruption Strategy for years 2017-2020 registered a moderate progress. Thus, the report at the end of 2018 presents 44 out of 125 actions carried out (35%), the others being in progress (38 or 30%), partially implemented (34 or 27%) and not implemented (6 or 5%).

### CONSTRAINTS

The Anticorruption Prosecutor's Office, the authority that prosecutes high-level corruption cases, does not have sufficient staff and administrative resources to ensure an effective investigation of the highly important cases for the society at large. In particular, there are certain episodes of the "Russian laundromat" and the "bank fraud", as well as other information that becomes public and is targeting more high-ranking individuals. At the same time, the Anti-Corruption Prosecutor's Office leads the criminal prosecution of other corruption cases investigated by the NAC, which generates a scattering of efforts.

Some files involving high-ranking officials and public figures, initiated in 2016, resulted in their symbolic convictions, some of them not being coerced to serve the deprivation of liberty penalties ("Chirinciuc" case). In other cases ("Șor" case) the trial of the case in courts was delayed, so that, ultimately, the convicted left the territory of the Republic of Moldova until the decision of the Court of Appeal was issued.

An integrated statistics of cases of corruption is not available, each institution having statistical data on causes that it manages within its own competence. There is an exchange of data between authorities, but they are not transmitted within an information system that integrates all the actors in the field - Anti-corruption Prosecutor's Office, NAC, the courts, the Agency for the Recovery of Criminal Assets (ARO), etc.

Many of the highly important cases, which have become public, cannot be sufficiently investigated due to the fact that the evidence was either destroyed or hidden or because the owners have changed and / or the jurisdictions, where the assets which result from criminal activity, have been changed.

The integrity mechanism in the justice sector does not ensure integrity and professionalism of the personnel involved in the fight against high-level corruption; this also refers to the self-administration structures within the courts (SCM) and the prosecutorial bodies (SCP).

### PRIORITIES

1. **Verification on integrity and professionalism of the actors in the field of fight against high-level corruption**, as well as increase the attractiveness of the positions of anti-corruption prosecutor, criminal prosecution officer or investigating officer after the completion of the vetting exercise.
2. **Completion of the highly important cases initiated with effective confiscation of the goods resulting from criminal activity.**
3. **Promotion from the EU, of a Support Mission in the justice sector to increase the effective fight against high-level corruption.**
4. **Training, following the integrity and professionalism checks, of the SCM and SCP in the evaluation, appointment, promotion and sanctioning of judges and prosecutors.**

## FOREIGN AND SECURITY POLICY

### PROGRESS

The EU-Moldova dialogue in the field of foreign and security policy is carried out, in particular, through regular meetings between the authorities of the Republic of Moldova and representations of the Political and Security Committee of the European Union, bilateral consultations dedicated to the EU's Common Foreign and Security Policy (CFSP) and multilateral dialogue formats within the Eastern Partnership Panel on Security, Common Security and Defence Policy (CSDP).

The Republic of Moldova is aligning to most of the EU Declarations and CFSP Decisions, with an average annual alignment rate of approximately 71%. At national level, in 2016 the Law on the application of international restrictive measures was adopted to improve the legal procedures regarding the alignment with international decisions and their implementation.

Based on the Framework Agreement for participation in EU Crisis Management Missions, starting with 2014, the Republic of Moldova delegates experts to the EU Mission in Mali (EUTM Mali), and from 2015 - to the EU Military Counselling Mission in the Central African Republic (EUMAM RCA). At national level, the regulatory framework on the participation of the Republic of Moldova in international missions and operations has been strengthened. The new law entered into force on February 5, 2016. Additionally, starting January 1, 2018, the EU-Moldova Agreement on security procedures for the exchange of classified information has entered into force, which gives the Republic of Moldova new opportunities for cooperation with the EU within the framework of the CSDP.

### CONSTRAINTS

During the reference period, the number of security challenges and risks for the Republic of Moldova in particular and for the Eastern Partnership region in general increased substantially - in particular, following the illegal annexation of Crimea by Russia and the outbreak of war in Eastern Ukraine. In this context, especially after the adoption of the EU Global Security Strategy in 2016, the agenda of cooperation with the EU in the field of foreign and security policy has largely focused on creating the conditions for strengthening internal and external resilience of our country.

The Republic of Moldova was selected as a pilot country in the field of evaluation and fight against hybrid threats. Thus, during 2017, the European External Action Service (EEAS) in cooperation with the European Commission carried out an assessment of hybrid risks and threats to the Republic of Moldova to identify critical vulnerabilities and needs for support. In this context, at the national level, the Moldovan authorities are to take several measures to strengthen capacities against hybrid threats. Some preconditions have already been set by the adoption, in 2018, of the Information Security Strategy of the Republic of Moldova for the years 2019-2024 and of the National Defence Strategy and the Implementation Plan for the years 2018-2022.

In addition, the Republic of Moldova is to analyse and become active in capitalising on EU cooperation initiatives in the field of security and defence (PESCO). At the beginning of 2018, the Moldovan authorities initiated discussions on the launch of a high-level structured EU-Moldova Dialogue in the field of strategic security. These efforts should be continued.

### PRIORITIES

- 1. Approval of the mechanism of implementation of the EU-Moldova Agreement on security procedures for the exchange of classified information.**
- 2. Strengthen the national mechanism of recruiting, training, appointment and participation of national experts in EU crisis management missions.**
- 3. Launch of the EU-Moldova high level structured dialogue in the field of strategic security.**
- 4. Initiate discussions on the participation of the Republic of Moldova in projects under the EU's Permanent Structured Cooperation Program in the field of security and defence (PESCO).**
- 5. Obtaining EU support in the development and implementation of an integrated early warning and response system (IEWR) for hybrid threats.** The IEWR system could include, as a key element, a staggered and comprehensive mechanism of collection, processing and analysis of data related to hybrid threats including in the military sector.

## REGIONAL STABILITY

### PROGRESS

An important international development is the adoption, on June 22, 2018, of the UN General Assembly Resolution on "Complete and unconditional withdrawal of foreign military forces from the territory of the Republic of Moldova". The resolution was supported by 64 states, including all 28 EU members. In 2015, the negotiation process in the "5 + 2" format was de facto suspended, resuming in the summer of 2016, once the "Berlin Protocol" was signed, facilitated by the OSCE German Presidency-in-Office. At the beginning of 2017, the parties identified a priority "eight-point package", conventionally called "Berlin Plus" and, ultimately, reflected six of these points in the protocol decisions concluded in 2017-2018. By 2019, most of the protocol decisions have been implemented, except for those concerning the telecommunications sector. These developments have involved significant efforts by national authorities, but have often been criticised by civil society representatives, because they are largely unilateral and would weaken the negotiating position in the process of conflict settlement and reintegration. At the same time, the national authorities reconfirm that these actions are aimed at strengthening the trust between the two banks of the Dniester and are part of the so-called "small steps" policy promoted by the Government. It is worth mentioning, the activity of the regional office of the People's Advocate in Varnița, which aims to respect human rights in the Transnistrian region.

The EU has a particular role to play in the trust measures between the two banks, through the technical assistance provided, as well as the EUBAM Mission. However, the primary mandate of the Mission is to provide the necessary assistance in the integrated management of the Moldovan-Ukrainian border. Thus, during the reference period, the Programme on integrated border management was prepared, the process of creation of eight joint control crossing points of the Moldovan-Ukrainian border was initiated, i.e. "Briceni - Rossasani", "Novosavtkoe - Cuciurgan", "Palanca - Maiaki-Udobnoe", "Goianul Nou - Platonovo", "Criva - Mămăliga", "Larga - Klementi", "Reni - Giurgiulești", including on the transnistrian segment, i.e. "Pervomaisk - Cuciurgan".

### CONSTRAINTS

Starting 2017, there is an increase of contacts between Chisinau and Tiraspol at the level of the political representatives in the "1 + 1" format. Also, discussions were organised within the sectoral working groups - in particular, in the fields of car transport, economy, telecommunications, customs, health, education and human rights. In 2018 there were several meetings of the President of the Republic of Moldova with the leader of the Transnistrian region. However, the process of settlement of the Transnistrian conflict has not progressed as far as the political settlement of the conflict is concerned. Negotiations on the third basket of negotiations have not been started.

In this regard, the main challenge at national level is the lack of a unified strategic vision of Chisinau on the settlement of the Transnistrian conflict and the reintegration of the country. Despite the implementation of several confidence-building measures by Chisinau, the Tiraspol authorities continued to hamper the regulatory process by intensifying testing and exercising military capabilities, including in the security area, in violation of the 1992 Agreement on the Principles of peaceful settlement of the Transnistrian conflict. In addition, since the beginning of 2019, there are several contested actions of the Tiraspol authorities, which undermine the mandate of the Unified Control Commission and the activity of the peacekeeping mission - for example, the illegal placement of Transnistrian mobile posts of "customs officers" and "guards" in the vicinity of Varnița or the unsanctioned installation of objects of unknown destination by the Transnistrian "border guards" structures at the control station in Dorotcaia village.

### PRIORITIES

The main priorities in the area of regional stability, proposed for the following period, concern the following:

1. **Development of a common national vision on the settlement of the Transnistrian conflict and the reintegration of the country**, with the involvement of all institutions and with the participation of civil society.
2. **Promote public debates on the evaluation of the costs of non-resolution of the conflict and the identification of conditions to strengthen democracy and functioning of the state institutions in the reintegrated Republic of Moldova.**
3. **Advancing discussions in the "5 + 2" format for launching negotiations on basket III**, aimed at broad political regulation, including institutional, political and security issues.
4. **Initiate negotiations with the EU on the extension of the EUBAM Mission for a new mandate.**

## 2. TITLE III – FREEDOM, SECURITY AND JUSTICE

### CONTEXT

Title III concerns cooperation in areas such as: the rule of law; protection of personal data; migration, asylum and border management; movement of persons; prevention and fight against organised crime, corruption and other illegal activities; fight against illicit drugs, prevention and fight against money laundering and financing of terrorism; judicial cooperation. In the present Report, all the mentioned fields were investigated, with the exception of fighting illicit drugs and judicial cooperation.

Many of the actions directly or indirectly related to the field of visa liberalization have provided good results at the provisional entry into force of the Association Agreement. Thus, the areas related to **border management, migration and asylum** registered, on the date of obtaining the visa-free regime - April 28, 2014 - a consolidated institutional and policy framework. Among the most important achievements of this sector are: the creation of the Border Police; opening of several common border crossing points with Ukraine, including on the Transnistrian segment; joint patrol of the Moldovan-Romanian border; implementation of integrated border management Strategies in the field of migration and asylum; empowering the Migration and Asylum Bureau with infrastructure and personnel to document foreign citizens, ensure their integration, including temporary placement in the case of asylum and international protection seekers.

Five years after the entry into force of **the visa-free regime**, over 2.1 million citizens of the Republic of Moldova (over 60% of the population) travelled without a visa to the Schengen area, with the rates of refusal and illegal stay being reduced (0.3% and 0.5%, respectively, of the total number of visitors). The readmission mechanism works efficiently and is encouraged to continue. Through joint efforts with the countries of destination, the duration of examination of asylum applications has been reduced, and this has diminished the monetary interest mainly related to allowances, which means reducing the number of applications in the future. At the time of the provisional entry into force of the Association Agreement, the regulatory, planning and institutional framework in the field of **personal data protection** already existed, including the Law on the protection of personal data and the Centre for personal data protection.

**The justice sector** has made progress on some specific areas, such as case management, approval of the selection, promotion, appointment and sanctioning framework within the SCM and SCP. At the same time, the sector was shaken by the involvement of a significant number of actors in the "Russian laundromat" and in the controversial decision to cancel the new elections in Chisinau, held in June 2018. The promotion of several actions to ensure independence in the justice sector did not succeed, even though over 86% of the actions planned in the Sector Reform Strategy were reported as being implemented.

Institutional improvements were promoted with the adoption of the Law on the Prosecutor's Office and the Law on specialized prosecutors' offices, but there were doubts as to appointment of the Prosecutor General. Furthermore, the Prosecutors' Inspection remained under the subordination of the Prosecutor General, which fuelled in the public numerous suspicions related to the lack of independence and political control over the Prosecutor's offices and the courts. A reform of the justice sector was initiated at the end of August 2019.

**Corruption is still perceived as the main problem of the society**, and the corruption perception index has worsened since the provisional entry into force of the Association Agreement (from a score of 35 to 33, according to "Transparency International"). However, public policy actions have been taken, the activity of the Anti-Corruption Prosecutor's Office and the NAC offering a number of cases that have been investigated and referred to justice. It is essential to review the competences of the bodies responsible for fight against corruption and to strengthen prevention tools, such as integrity whistle-blowers.

**The money laundering and prevention sector** has the institutional and legislative framework harmonized with the EU Directive 2015/849 since the end of 2017. The Financial Intelligence Unit (SPCSB), as well as other involved authorities have approved specific regulations to identify and report suspicious transactions. As a result, the identification of a number of money laundering schemes was possible via a financial analysis of the transactions and the forwarding of these analyses to the Prosecutorial bodies.

## MIGRATION AND ASYLUM

### PROGRESS

In the migration and asylum sector, the legislative, planning and institutional framework was adopted and adjusted: the Law on asylum in the Republic of Moldova, the Law on the integration of foreigners in the Republic of Moldova and the Law on the regime of foreigners in the Republic of Moldova were supplemented with new provisions, to simplify the movement and residence on the territory of our country of EU citizens, as well as citizens of other states. The Strategy and Action Plan in the field of migration and asylum were approved. Since August 1, 2014, the E-visa has been operational, which is currently applied in relation to 120 states and which facilitates the entry into the country of foreign citizens. The Bureau of Migration and Asylum has been empowered with new functions and resources to ensure the implementation of the new legislation on migration and asylum. These include the placement and integration centres for foreigners, as well as the documentation centres.

The Republic of Moldova continues to comply with the EU requirements on the liberalized visa regime. Over the past five years, over 2.1 million citizens (over 60% of the country's population) have visited the Schengen area. The Readmission Agreement with the EU and the adjacent protocols are successfully implemented. Administrative arrangements were made with Germany to manage the increased flow, including repetitive, of asylum seekers from the Republic of Moldova.

At the tenth anniversary of the EU-Moldova Mobility Partnership, over 110 projects targeting the migration field were implemented.

### CONSTRAINTS

During the reference period, there was no increased flow of immigrants or asylum seekers registered. However, there are vulnerabilities related to the return of foreign citizens, especially from the East, as Readmission Agreements are not negotiated with states such as India, Azerbaijan, Uzbekistan etc.

Although awareness measures have been taken to inform on the requirements of stay on the territory of the Schengen states, the number of asylum applications, including repetitive ones, has increased from 480 in 2014 to 3835 in 2018, and in the first six months of 2019 they reached the figure of 1955. The requests came, in particular, from the citizens of the Republic of Moldova of a certain ethnic minority. The measures of integration of the persons returned to the Republic of Moldova as a result of unfounded asylum applications had only a partial effect, being registered cases of repeated asylum applications.

There are still people who are denied entry into the territory of the Schengen states (6368 in 2018) or who breach the conditions of stay (11,220 in 2018), although their number is negligible compared to the citizens who have benefited from the free movement in the Schengen area (0.3%, and respectively, 0.5% of the total number). Among the main reasons of refusal of entry are the inability to prove the purpose of the visit or the lack of sufficient financial resources during the stay in the Schengen state of destination.

### PRIORITIES

- 1. Further implement the commitments made in the context of the liberalised visa regime for the Schengen area** in the area of effective migration management and ensure asylum rights for third-country applicants in the Republic of Moldova.
- 2. Negotiation and implementation of readmission agreements with Eastern states, in particular, those whose citizens are in a greater number in the Republic of Moldova** (India, Azerbaijan, Uzbekistan, etc.), under a temporary or permanent legal stay.
- 3. Promote information campaigns on entry and residence requirements in the territory of the Schengen States to reduce the number of persons who are denied entry or who breach the requirements of stay.**
- 4. Cooperation with Schengen states where Moldovan citizens more often apply for asylum status, to reduce the period of examination of asylum applications** and thus reduce the available benefits related to the asylum application process (residence allowances, return, etc.).
- 5. Implementation of the Action Plan in the field of migration and asylum for the years 2016-2020 and evaluation of the results of the Strategy 2011-2020**, with the development of a new planning document.

## PERSONAL DATA PROTECTION

### PROGRESS

The legislative framework on personal data protection is in force since 2011. At the end of 2018, the draft Law on the protection of personal data was approved in first reading, which transposes the EU Regulation 2016/679 and the EU Directive 2016/680.

The National Centre for Personal Data Protection (NCPDP) is also operational since 2011 and has approved several regulations for the implementation of Law no. 133/2011, including instructions on how to process personal data in the field of education and health.

In 2013-2018, the Strategy and Action Plan in the field of personal data protection was in force.

CNPDCP benefits from EU assistance through a twinning project initiated in 2017, which envisages strengthening the institution's capacities in developing departmental acts, applying sanctions and promoting public policies in the sector.

### CONSTRAINTS

The draft law on the video surveillance data was not promoted. Being registered as a legislative initiative already since 2012, it was withdrawn following the election of the next Parliamentary assembly for the years 2014-2018.

Although there is a framework law regulating the protection of personal data, its implementation requires legislative and normative adjustments in numerous specialised acts. Adjusting the national framework of normative acts to the requirements of Law no. 133/2011 took place only partially.

Certain aspects related to the anonymisation of court decisions have not been fully clarified in the decision of the Superior Council of Magistracy to ensure a fair balance between the public interest in the cases in which public persons appear and the individual interest of protection of private life.

No changes were made to the regulatory framework related to the functioning of the central public authorities in the management of personal data.

There still exists a rather limited culture related to the access and process of personal data, including the potential consequences of unconditional disclosure of such data by citizens.

On the other hand, one of the main challenges in this sector were cases of refusal by public institutions to provide information of public interest, including for investigative journalists, motivating it with the need to protect personal data.

### PRIORITIES

- 1. Assess the impact of the Strategy and Action Plan in the field of personal data protection and approve a new planning document based on the evaluation results.**
- 2. Promote the Law on personal data protection which transposes the EU Regulation 2016/679 and the EU Directive 2016/680, taking into account its onerous impact and set a sufficient transitional period for adjustment.**
- 3. Review the practices of publication of court judgments in the spirit of the best practices of the Court of Justice of the European Union and of the European Court of Human Rights, which should be adjusted to the national context and interest, especially with regard to the important cases with the involvement of individuals holding public office positions.**
- 4. Promote informational campaigns - including in schools, medical institutions, the business environment - on the importance to protect personal data and its processing in strictly regulated cases.**

## BORDER MANAGEMENT

### PROGRESS

Even before the Association Agreement came into force, the institutional and policy framework was mainly strengthened in the context of the visa liberalisation process with the European Union. Thus, the Border Guard Service was reformed into the Border Police - an administrative authority based on civil service. Also, the legal framework on the state border has been updated, and the strategic planning framework has been supplemented with the Strategy on integrated border management for years 2011-2013, updated with that for 2015-2017 and 2018-2023, including with Implementation Action Plans.

Seven joint control points at the Moldovan-Ukrainian border, including one on the Transnistrian segment, were opened. From November 2018 the mobile joint patrol takes place at the Moldovan-Romanian border. The EU border assistance mission on the Moldovan-Ukrainian border has been operational since 2005, with the aim to strengthen the capacities of the border and customs authorities of the two states, including on the Transnistrian segment. The mission has extended its mandate several times, the last one being approved by the end of 2020.

Cooperation with FRONTEX, currently the European Border Police and Coast Guard Agency, has been initiated and strengthened, by constant exchange of data concerning the border crossings. In 2018, a new agreement was signed to strengthen data exchange and to fight cross-border crime more effectively.

### CONSTRAINTS

State border control is not as effective on the Transnistrian segment. The internal control points, located at the administrative border, do not have the full spectrum of competences to verify the means of transport, the data regarding persons being presented voluntarily. However, the customs control is carried out on a compulsory basis, at the request of the representative of the Customs Service.

The placement of the representatives of the Customs Service and the Border Police on the Transnistrian segment on the Ukrainian side was made only with respect to a single common crossing point. It has limited functions and competencies, including the fact that assets are declared voluntarily, with the impossibility to use the full spectrum of tools to prevent, control and fight cross-border crime. The opening of the other six common crossing points on the Transnistrian segment is, for the moment, slowed down, mainly due to the Ukrainian authorities, who invoke administrative reasons.

There are regular cases of cigarette trafficking, as well as other goods, including some prohibited for circulation (drugs), especially on the Moldovan-Romanian border segment.

### PRIORITIES

- 1. The extension, from one to seven, of the number of common crossing points**, in particular, on the Transnistrian segment, based on bilateral agreements between the Republic of Moldova and Ukraine; plus the extension of their mandate, including regarding the declaration of customs goods; the enforcement of the Law on the customs regime of goods and persons crossing the Moldovan-Ukrainian border.
- 2. Launch of the control at the Moldovan-Romanian border through common crossing points, in particular, the control points with increased flow of persons and goods** (eg. Leușeni-Albița).
- 3. Implementation of facial recognition for the fluidisation of border control - first of all, for Chisinau International Airport.**
- 4. Strengthen cooperation between the authorities of the Republic of Moldova and the EU member states and the associated countries in combating and prosecuting cross-border crime** (eg. smuggling, human trafficking, drug trafficking), including by forming joint criminal investigation teams and coordinating special investigative measures to detect and prosecute the entire spectrum of participants involved in criminal organisations.
- 5. Implementation of projects, within the framework of the EU Mobility Partnership, that contribute to strengthening the training capacities of Border Police and Customs Service personnel, to patrol and control the state border, as well as to investigate and prosecute cross-border crimes.**

## RULE OF LAW

### PROGRESS

The planning framework was focused on the Justice Sector Reform Strategy (JSRS) for years 2011-2016, extended until the end of 2017. Also, in 2018, the Ministry of Justice submitted a short-term planning document, known under the name of small reform of the justice sector.

The legislative framework in the field of justice has been revised and strengthened, by: approving the mechanisms of evaluation, selection, promotion and sanctioning of judges, including of members of the Superior Council of Magistracy (SCM); the adoption of a new Law on the Prosecutor's Office, with extended powers and increased independence offered to the Superior Council of Prosecutors (SCP); creation of specialised prosecutor's offices (anti-corruption and organized crime); repeatedly revising the provisions of criminal and civil procedural law, to reduce the period of trials. A new map of the courts and a reconstruction plan was approved. The Integrated File Management Program was implemented (IFMP), which allows the concept of random distribution of files to be implemented in practice when cases are allocated to judges; visualisation of data on active and completed cases; implementation of the electronic signature for participants in the trial, to present in electronic format the evidence and other materials to the file. Several criminal prosecution cases were initiated and finalised on the "Russian laundromat" and "bank fraud", particularly, the Platon and Filat cases.

### CONSTRAINTS

The amendment of the Constitution of the Republic of Moldova related to the strengthening of the independence and functions of the SCM, as well as the appointment of judges on a single term and on based on merit was missed twice.

The decision-making process within the SCM and the SCP is not transparent, the "deliberation" stage being applied, and the way of choosing the members of the SCM and the SCP has been criticised several times due to lack of competition or its mere appearance. Although it is an election exercise, the sessions of the General Assembly of Judges and the General Assembly of Prosecutors did not offer candidates the opportunity to present their programmes.

Numerous suspicions of influence, lack of integrity and political control of judges and prosecutors have been reported, including through journalistic investigations. The breaches in the system were further accentuated when the data on the "Russian laundromat" and "bank fraud" became public, involving judges, prosecutors, lawyers and judicial executors in these illegal actions. Due to objective considerations - of resistance, but also of overload of the system -, the Anti-Corruption Prosecutor's Office failed to finalise and to send to trial several episodes of the two frauds that became known to the general public.

Several cases are at the judicial stage, including at the court of appeal. But the actors involved in "bank fraud", such as Ilan Șor, have left the country and, although they are under an international search warrant, the exact place of their location is not known. The cases of Platon and Filat were suspected as being politically ordered, on the grounds that, despite the increased public interest, the transparency of the process was not ensured. The backsliding in the justice sector has affected the relations of the Republic of Moldova with the EU, initially by suspending the direct budgetary assistance, and after the controversial cancellation of the results of the new elections in Chisinau, in 2018, even the macro-financial assistance.

### PRIORITIES

- 1. Approval of a new planning framework in the justice sector - Development Strategy for 2019-2022.**
- 2. Urgent implementation of the procedure for evaluation of judges, prosecutors, criminal prosecution officers and other persons involved in the justice process, initiated at the end of August 2019 by the Government.**
- 3. Completion of criminal cases against persons involved in "Russian laundromat" and the "bank fraud".**
- 4. Review the powers of specialised prosecutors and increase the number of prosecutors involved in the prosecution of high-level corruption cases.**
- 5. Strengthen the role of the Judicial Inspection and the Inspector of Prosecutors to ensure the efficiency of the internal mechanisms of sanctioning and exclusion of judges and prosecutors who breach the integrity and professionalism requirements.**
- 6. Promote transparent and merit-based mechanisms in the process of evaluation, selection and promotion of judges and prosecutors in Courts and Prosecutors' offices.**
- 7. Rigorous control over the access of candidates for the positions of judges and prosecutors at the National Institute of Justice in the initial training cycle.**

## PREVENTION AND FIGHT AGAINST CORRUPTION

### PROGRESS

Two Strategies in the field of integrity and anti-corruption were adopted and implemented: NAS for years 2011-2015, extended until 2016 and NIAS for years 2017-2020. During 2018, nine sectorial anti-corruption plans were approved (public procurement, education, health, customs, fiscal, public property administration, public order, environmental protection).

In 2012, the Centre for Combating Economic Crimes and Corruption (CCCEC) was reformed and renamed the National Anticorruption Centre (NAC). The NAC has gradually expanded the list of prevention instruments, including the analysis of the corruptibility of the normative acts, the preventive evaluation of the activities of the public authorities, the conduct of the information and training campaigns, the evaluation of the institutional integrity. The institutional framework was completed in 2011 with the National Integrity Commission (NIC), which was subsequently reformed and transformed, in 2016, into the National Integrity Authority (NIA).

In 2017, the Agency for the Recovery of Criminal Assets (ARCA) was created, as a subdivision within the NAC, responsible for conducting parallel financial investigations, for seizure and management of assets resulting from criminal activity, and for negotiating with other countries the recovery of assets resulting from criminal activity.

In 2016, the Anticorruption Prosecutor's Office was created, specialised in the criminal prosecution of corruption cases, including criminal prosecution of high corruption cases, as well as leading criminal prosecution on corruption cases within the competence of NAC.

### CONSTRAINTS

The level of perception of corruption in the Republic of Moldova, according to the Transparency International index, has varied over the last five years - from 35 points in 2013 to 33 in 2018, finally ranking 117th out of 180 states. Thus, in the last five years, the level of corruption perception has worsened, ranging from the lowest - 30 points - in 2016, with a slight recovery towards 2018. At the same time, opinion polls in recent years show that corruption is still considered as one of the main problems in society, and most consider it a severe problem.

Although NAC has undertaken numerous preventive actions, as well as actions to fight corruption, the phenomenon persists and continues to be the main concern of the citizens. The current framework of responsibilities in the field of fight against corruption mainly involves the Anti-Corruption Prosecutor's Office (with 45 positions) and the NAC (with 342 positions), excluding the territorial prosecutor's offices and the criminal prosecution bodies of the police. A more active involvement of all criminal prosecution bodies is not possible due to the increased risks of reduced efficiency of criminal prosecution and of internal corruption.

An extremely complicated task is the investigation of the "bank fraud" and the "Russian laundromat", which consumes considerable resources of the Anti-Corruption Prosecutor's Office and affects the process of investigation and prosecution of other cases.

### PRIORITIES

- 1. Effective implementation of NIAS and monitoring, including alternative, of its implementation, as well as of the sectorial anti-corruption plans.**
- 2. Revise the competences of the Anti-corruption Prosecutor's Office and of the NAC**, to ensure rapid and efficient investigation of corruption cases, by transferring the criminal prosecution of some crimes to the territorial prosecutor's offices, where the NAC has offices, and the concentration of the Anti-corruption Prosecutor's Office on the criminal prosecution on cases of high-level corruption.
- 3. Eliminate corruption factors from sectors with high impact on the perception of corruption among citizens**, including in the field of education, health and public order, by excluding the human factor and cash management, and by applying ICT solutions and facilitate payments through the public electronic payment platform MPay.
- 4. Strengthen the approved prevention tools, including of the integrity whistle-blowers.**

## FIGHT AGAINST MONEY LAUNDERING AND FINANCING OF TERRORISM

### PROGRESS

The policy and legislative frameworks were supplemented with the Strategy on prevention and fight against money laundering and financing of terrorism for 2013-2017 and with the Law on the prevention and fight against money laundering and financing of terrorism. An Action Plan was approved for years 2017-2019, to fill the gap in the planning policy framework. A working group has been set up by the Government to develop a new Strategy in the field.

Institutionally, the Service for the Prevention and Fight against Money Laundering (SPFML) was consolidated, which was further separated in 2018 from NAC, following the adoption of the new legal framework in the field. The SPFML, the National Bank of Moldova (NBM) and the National Financial Market Commission (NFMC) have approved regulations related to the monitoring and reporting of suspicious transactions in their areas of competence, including methodologies and guidelines on reporting and analysis. The SPFML has been benefiting, since the end of 2018, of an EU-funded Twinning project to strengthen the institutional capacities of the Service.

The activity of the SPFML has been significantly improved with the reduction of the number of suspicious transactions reported to those exceeding 200 thousand lei in cash and 500 thousand lei by transfer. This has made it possible to focus efforts on analytical notes (250), monitoring (85) and financial investigation reports (130), and international cooperation, including through the EGMONT network. One of the results is the initiation of 16 criminal cases based on the data presented by the Service.

In the second half of 2018, a mission of MONEYVAL on periodic monitoring of money laundering mechanisms started in the Republic of Moldova. The report has not yet been made public.

### CONSTRAINTS

Criminal prosecution for money laundering and assimilated crimes, including in the context of the "Russian laundromat" and the "bank fraud", did not offer the results expected by the public. Although there are some finalised criminal cases, most are still in the pre-trial or trial stage.

The national legal framework allows, including in the public sector, transactions with entities from off-shore jurisdictions, which generates numerous risks of tax evasion, money laundering and financing of terrorism. These permissive provisions also affect the way the public property is managed, including the one currently offered in concession (the case of Chisinau International Airport), allowing the manager to be easily changed into one who comes from such jurisdictions. Efforts to prevent and fight money laundering are also jeopardised by the fact that the legislation related to transactions with cash is not implemented effectively - in particular, at exchange pointed, which in turn does not allow to effectively identify the individual who carries out cash transactions, operating with amounts that are subject to reporting under the national law.

The data collected by the Public Service Agency related to the effective beneficiaries do not include information about the founders of the legal entity, other than the direct founders of the enterprise registered in the Republic of Moldova; as a result, the determination of the effective beneficiary takes place on the basis of a declaration on own responsibility. Data on the entire spectrum of shareholders and on the effective control structure are lacking, which does not allow the monitoring measures to be effectively applied by the SPFML and other public authorities.

### PRIORITIES

- 1. Approval of a new Strategy in the field of prevention and fight against money laundering for years 2019-2023.**
- 2. Restrict transactions between the public sector and entities from off-shore jurisdictions, and significantly extend the reporting obligations on the founders of Moldovan companies to establish from registration or, at a later stage, when the change the control structure happens, the companies that are controlled directly or indirectly by entities originating from offshore jurisdictions.**
- 3. Transpose Directive 2018/843, which amends and complements Directive 2015/849 on the prevention of use of financial systems for money laundering or financing of terrorism.**
- 4. Strengthen cooperation among SPFML, Anti-corruption Prosecutor's Office, NAC and ARCA in criminal prosecution, including in the seizure of assets resulting from criminal activity.**
- 5. Involve judges in trainings on money laundering to correctly evaluate evidence on such cases.**

### 3. TITLE IV – ECONOMIC AND SECTORIAL COOPERATION

#### CONTEXT

The moderate progress related to Title IV of the Association Agreement was overshadowed by the way initiatives were promoted, many draft decisions being approved in a hurry, without a broad impact analysis exercise, in several cases ignoring the principles of public consultations. An initiative that - both with the annulment of the elections for the position of mayor of Chisinau - hit hard in relations with foreign partners was the Law on voluntary declaration and fiscal stimulation (capital amnesty), which returned to the agenda after a first failure registered at the end of 2016. The latter law had an economic impact incomparable to the image risks and the discouraging effect on the good faith taxpayers.

The public administration reform, although implemented hastily and with little transparency, has made moderate progress in terms of strengthening the institutional capacity of the public administration, implementing policies and efficient use of budgetary resources, and providing high quality services for all citizens. The reorganization of the ministries and public institutions, as well as the improvement of the motivation mechanism for the public service personnel are, to a large extent, the elements that have generated these advances. However, the public administration reform will not be successful unless additional efforts are made to strengthen institutions and business processes in both central and local public authorities.

The constant improvement of the budgetary discipline is worth mentioning. In 2018, for the first time in the last seven years, the Budget for 2019 was approved within the deadline set by the legislation. The budgetary discipline is observed not only when it comes to deadlines, but also in the case of public debt thresholds. The maximum ceiling of the budget deficit in a single year, introduced in 2015, was strictly adhered to during this period. Despite this progress, the analytical capacities of the Ministry of Finance are insufficient, which is an obstacle in carrying out comprehensive tax reforms, but also in creating an independent fiscal council.

The agri-food production sector - which is one of the main beneficiaries of trade liberalization between the Republic of Moldova and the European Union - has received significant support as a result of tariff exclusion and tariff liberalization of exports. De facto, the Association Agreement eliminated the tariff barriers for more than 90 percent of the domestic products. Without placing a strong emphasis on private investments to increase the added value of the exported products, in the absence of the optimal framework for the export of products of animal origin, the effect of exclusion of tariffs will be limited in the medium and long term.

Another important area for the Republic of Moldova is transport. During the reference period, financial allocations for both the improvement of national roads and for the repair of local arteries have increased. The works were not always of high quality, an example in this respect being the rehabilitations within the "Good Roads for Moldova" Programme. In the area of air transport, we emphasize a very rapid increase in passenger traffic, which grew by more than 60% compared to 2014. This increase was possible with the entry of low cost operators, but due to the expansion of the Chisinau International Airport, under the concession contract. The contract in question has recently become a focal point for discussions in the public and parliamentary agenda, its renegotiation becoming an imperative for the new Government.

Accelerating the process of transposition of EU directives and their implementation must become a cross-cutting priority for all areas. Because, despite the existence of a large number of strategic and planning documents, in many areas the results are not showing up. Strengthening institutions and improving interinstitutional cooperation are essential preconditions for this process.

## PUBLIC ADMINISTRATION REFORM

### PROGRESS

The reform of the public administration registered moderate progress in strengthening institutional capacity, in implementing policies, in efficient use of budgetary resources and in providing quality services for all citizens. Since 2016, the Government advanced in the implementation of the public administration reform by reorganising the ministries and institutions within their subordination. A special focus of the reform was the reduction of expenditures for the functioning of ministries and other central administrative authorities.

The motivation mechanism of the public sector employees has been improved. The new law established a unified pay system for all categories of public sector employees, increased the attractiveness of public positions for beginners and gave managers of public institutions more flexibility in using promotions and pay levels.

After a long period of debates and consultations, the new Administrative Code of the Republic of Moldova was approved. The systematisation of all administrative procedures in a single document will increase the predictability of the public administration and strengthen the observance of the rights and freedoms of individuals and legal persons.

### CONSTRAINTS

The process of reform of the central public administration was carried out hastily and in a non-transparent manner. The reform aimed to a lesser extent the effectiveness and quality of the functions and business processes that are used within the authorities, but also among different central administrative authorities, which are essential to the efficient development and implementation of economically feasible and substantiated public policies approved by the Government.

The objectives of the Association Agenda in this area are ambitious: the upgrade of public services, the creation of a professional civil service based on the principle of managerial responsibility and promotion of ethical values among civil servants. However, the actions implemented by authorities in the last five years have been limited and have not been able to reach the mentioned objectives.

The public administration reform will not be completed unless additional efforts are taken to strengthen institutions and business processes, both at the level of central and local public authorities.

### PRIORITIES

The essence of public administration reform lies in increasing the quality of public services, and in this sense it is necessary to:

- 1. Improve the internal processes at the level of institutions** - the focus of the reform should be placed not only on the reduction of the expenses for the functioning of the public institutions, but also on the revision and improvement of the functions both within the institutions and within the different central administrative authorities.
- 2. Reduce the dependence of public institutions on the political factor** - the objective must be the development of a professional civil service body, based on the principle of managerial responsibility and effective delegation of authority.
- 3. Introduce the practice of developing public policies based on evidence** by conducting ex-ante analyses of the impact of public policies, in particular, until the development of normative acts that have major impact on citizens or society. To increase the impact of policies on the standard of living of citizens, it is important to improve the framework of development and analysis of public policies.
- 4. Strengthening the strategic framework for the implementation of the public administration reform** - the ability of the Government and the Parliament to ensure an open and transparent process related to the continuation of the central public administration reform and the start of the reform at the local level are essential. However, the sustainability of the reform of the local public administration will be ensured only if it is carried out on the basis of a roadmap debated with the civil society, and if the administrative reorganisation will be carried out in compliance with European principles.

## EMPLOYMENT, SOCIAL POLICY AND EQUALITY OF OPPORTUNITY

### PROGRESS

The AA aims to promote cooperation based on EU social and labour law, legislation that derives largely from the ILO conventions that the Republic of Moldova has already ratified. Although with some delays, so far, most of the European Directives on the three pillars of this chapter have been transposed into national law. In this regard, the Labour Code has been adjusted on numerous occasions, to provide more flexibility for both employees and employers. Even so, for the moment, it has not been possible to adopt a new Code, which will solve the demands of the business environment on issues related to fixed term contracts, probationary periods, termination of employment contract, payment of overtime, etc. By the end of 2017, a new version of the Code was proposed, but, in the absence of an evidence-based assessment, it did not reach a sufficient consensus in society.

With regard to equal opportunities, national legislation has also been amended to transpose European provisions, including those related to the principle of equal treatment, regardless of race or origin, and those related to employment and job seeking. Overall, important progress has been made in this direction, and the transposition of the legislation could be completed earlier than foreseen in the annexes.

### CONSTRAINTS

Although the new rules should strengthen the quality of the Moldovan legislation and, at the same time, adapt it to the current economic realities, a number of constraints continue to persist in this area. The improvement of the quantitative indicators of the labour market is accompanied by the worsening of the qualitative ones. In recent years, informal employment has continued to grow, reaching 38% of the total employed population. Moreover, the demographic trends continue to be a fundamental constraint for the economic and social development of the country. These trends are even more dramatic as a result of the intense emigration of the population within the employability age. Additionally, the low labour productivity, which is an important factor influencing the investors' decision, and their perception related to the functioning of the labour market in the Republic of Moldova is not among the best.

### PRIORITĂȚI

Ensuring the transparency of the labour relations reform process and strengthening the appropriate institutional framework must remain a basic priority in the field. The analysis of the labour legislation and the possible amendment of the Labour Code must be done on the basis of relevant international methodologies and not only on the basis of the lobbying activities exercised by business or trade unions. In this regard, the priorities in the field are:

1. **Adoption of a new Labour Code, based on relevant methodologies** - for example, the OECD indicators of strictness of labour protection, on the basis of which an objective analysis can be performed on internationally comparable data.
2. **Review the decisions that limited the competences to control the labour security held by the State Labour Inspectorate.** The inspectorate must adopt a control policy based on risk assessment and publication of the lists of entities that should expect such controls.
3. **Facilitate investments in human capital.** Deep structural reforms are needed, especially in the vocational and tertiary education sectors to increase the efficiency of public and private investments in these areas and to better anchor the educational supply with the demand for labour from the manufacturing and production sectors
4. **Fight discrimination at work.** There are still difficulties in reintegrating women into the labour market after the birth of children. The cause is also the lack of an adequate preschool system - few kindergartens in the country and crowded in the city.

## MANAGEMENT OF PUBLIC FINANCES: BUDGETARY POLICY, INTERNAL CONTROL, FINANCIAL INSPECTION AND EXTERNAL AUDIT

### PROGRESS

After the missed last instalment of the International Monetary Fund's Support Programme, which ended in 2013 and the banking crisis of 2014-2015, conclusion of a new Programme in 2016 was a major achievement for the Republic of Moldova, including from the perspective of public finance management. Progress, in the context of the programme, was positive until the summer of 2018, when a set of tax initiatives was approved, some of which controversial (eg. the Law on voluntary declaration and fiscal stimulation).

However, during the reference period, there was a positive trend with respect to the discipline in approving the Law on the state budget. If, in 2015, the Budget Law was approved by assuming the responsibility of the Government only on April 12, the draft Budget Law for the year 2019 was approved within the deadline set by the legislation (until December 1, 2018), and this is for the first time in the last seven years.

Entry into force, on January 1, 2015, of Law no. 181 on public finances and fiscal responsibility improved the budgetary process, enhancing the medium-term planning process and defined clearly the roles and responsibilities of the institutions involved in the respective exercise. Additionally, by Law no. 181, for the first time the maximum ceiling of the budget deficit in a single year was introduced, which was respected during the reference period.

Also, in 2017 a new Law on the organisation and functioning of the Court of Accounts was adopted which, among others, expanded the audit area in the economic sector with the participation of the state.

### CONSTRAINTS

The action plan provided for the approval of a new Law on the State Financial Inspectorate to streamline the financial control carried out by the Ministry of Finance. Currently, the activity of the Financial Inspection is regulated by the Government Decision no. 1026/2010. Although a draft law was prepared for this purpose, the Government endorsed it negatively, stressing that a unified approach is needed on the control prerogatives of the managers of the institutions, as well as on the internal audit and financial investigations, and an isolated draft law will not solve the existing problem.

Another action included in the plan - for which the National Anticorruption Centre is responsible and which is also without results - concerns the widespread use of financial investigations in the fight against fraud. Results are still pending and, until now, the only important step in this direction (with extremely modest results) is the start, on the bank frauds, of the cooperation between the NAC and the Agency for the Recovery of Criminal Assets (ARCA). A feasibility study has been developed to create a fiscal council - an independent entity that follows the fiscal policies and acts as a counterbalance when the stability of the budgetary framework is jeopardized, to ensure the continuous development of the budgetary planning. However, the study prepared by the Ministry of Finance does not recommend the establishment of such an institution before strengthening the analytical capabilities within the Ministry of Finance.

### PRIORITIES

Against the background of improving the process of management of public finances, it is important to ensure the continuity of reforms through:

- 1. Establishment of a fiscal council with advisory role, with the concomitant consolidation of the capacities of the Ministry of Finance.** In the context of frequent fiscal changes, an independent entity could provide the necessary support to ensure the implementation of prudent fiscal rules, to evaluate the Budget and the MTBF.
- 2. Strengthen the efforts on financial investigations, which must go beyond the events that took place in the banking sector.** The Association Agreement emphasises the creation of a modern system of public finances in general, including in the field of fight against fraud and corruption.
- 3. Revising the activity framework of the State Financial Inspectorate.** A potential area where the State Financial Inspectorate could increase its presence once the institutional framework is strengthened is fraud and irregularities in the use of donor funds.

## TAXATION

### PROGRESS

During the reference period, fiscal changes were frequent and generated fervent discussions. The years 2018-2019 were noted by numerous debates on various systems and rates of taxation. The changes promoted in haste, in July 2018, were not subject to a public consultation process and no analysis of their impact was carried out. Even the changes in 2019, which have included the return, at times, to previous tax rates, have not been subject to a sufficiently broad exercise of analysis and consultation. In the short term, public finances have started to feel pressure on them, in particular, because of initiatives such as the single income tax rate and the reduction of the social contribution. According to forecasts, however, this reform will have a positive impact on the medium- and long-term economic activity.

Starting with January 2, 2018, taxpayers have the opportunity to transfer once a month the full amount of all taxes, which are then redirected to the default destinations. This reform has streamlined the efforts of accountants, reducing the number of errors associated with transactions to multiple treasury accounts. On the excise side, quotas were increased for some products, while for others the inflation adjustment was made. Excises duties on tobacco products have been repeatedly increased to ensure that the minimum quota, as provided for by EU directives, is reached, and the budget income is supplemented.

### CONSTRAINTS

A considerable setback was the initiative on voluntary declaration and fiscal stimulation (capital amnesty). For the first time, the initiative in question came to Parliament in December 2016, but was withdrawn due to pressure from the international community and the independent experts. After the deterioration of relations with the EU and the IMF, these drafts returned to the authorities' spectrum of interest, being voted and entering into force in July 2018. The extremely modest results of this exercise (ten beneficiaries who declared assets worth 30 million lei) raises question marks on the opportunity to adopt this law which, besides promoting some obscure interests, inevitably discourages the good faith taxpayers.

Among the arrears existing in the field of taxation we can highlight the delay in the development of the automated information system, which would allow the management of the risk management. Its implementation would lead to a better identification and analysis of the risks, the priority areas being prevention of tax evasion and fraud, also having an impact with a reduced shadow economy.

### PRIORITIES

Discussions on changing fiscal policy and the attempt of the new government to correct some of the changes made in 2018 suggest the need to radically rethink how to identify and promote future tax reforms:

1. **The process must ensure more predictability for economic agents and investors**, giving them clear perspectives that a certain fiscal approach will be in place for a certain foreseeable term.
2. **The identification of the areas subject to fiscal changes must derive from complex analyses** of the economic structure of the country and of the needs to support the different branches of the economy, without being limited to the recommendations of foreign partners. In this respect, it is justified to maintain the unified income tax rate and the low rate of the employer's social security contribution.
3. **Improvements must also be made with respect to the VAT**. Here we emphasise the need to simplify and minimize the breaches in the VAT flow by rationalising quotas, exceptions and exemptions.
4. **A more stringent and more efficient implementation of indirect methods** of estimation of taxable income and the extension of indirect methods for evaluation of assets for income tax purposes.

## ENTREPRENEURSHIP

### PROGRESS

With the signing of the AA, the EU and the Republic of Moldova have committed to strengthen their cooperation on industrial and entrepreneurial policy, thus improving the business environment for all economic operators, but with a special focus on SMEs. This goal was established as the basis for a series of activity plans of the various government institutions and sectoral strategies, among the most important being the SME Development Strategy, the Investment Attraction Strategy and the Export Promotion Strategy, the Concept of development of clusters and the Roadmap to improve competitiveness.

The concept of these plans takes into account the internationally recognised practices in the field, in particular the principles of the Small Business Act initiative. Thus, the entrepreneurial policies aim to improve dimensions such as access to finance, the green economy, innovations, public-private partnerships, energy efficiency, cooperation and internationalisation, which ultimately lead to increased competitiveness of Moldovan enterprises. Moreover, with the involvement of external partners, through ODIMM or other implementation units a number of entrepreneurial support programmes have been initiated and developed. They targeted both SMEs, micro-enterprises and start-ups, as well as large businesses.

### CONSTRAINTS

In recent years, the Republic of Moldova has made moderate progress in creating a favourable business environment for SMEs and other businesses. Despite some marginal improvements in the field (economic, inflationary and the banking system stabilisation), the fundamental constraints that prevented a noticeable improvement of the entrepreneurial activity were maintained. At the same time, the demographic trends continue to be a fundamental constraint for the economic and social development of the country - and they are even more dramatic given the intense emigration of the population capable for work and the relatively low labour productivity.

With a banking system shaken by the fraud discovered in 2014-2015 and with a capital market in the embryonic phase, the economy of the Republic of Moldova suffers from a chronic deficit of domestic investment resources. Moldovan banks do not fully exercise the function of accumulating resources and allocating them to finance productive investments. Therefore, most of the investments are financed from the own resources of the companies, which speaks about the constraints of small and medium-sized enterprises in terms of developing production capacities and increasing competitiveness.

### PRIORITIES

In terms of priorities, the authorities responsible for the state's economic policy should focus on promoting a level playing field for all enterprises, through an effective competition policy and a transparent and independent judicial system. In this regard, the priorities should focus on the following actions:

- 1. The strengthening of the competences and role of the Competition Council** in the economy is absolutely necessary, while the judicial system remains the key segment for all spheres of economic and social life.
- 2. Development of key entrepreneurship skills**, which will increase the competitiveness of Moldovan companies in line with the priorities of the AA.
- 3. More efficient use of the possibilities offered by AA.** In order to grow faster and more sustainably, the national economy needs substantial expansion and diversification of exports. As a result, the Government's responsibility is to provide producer associations with the institutional and legislative infrastructure that will reduce transaction costs, facilitate international trade and attract foreign investors.
- 4. Stimulating innovation and transition activities towards the green economy** can no longer be neglected and must be integrated into the technological process of companies.

## AGRICULTURE AND RURAL DEVELOPMENT

### PROGRESS

The agri-food production sector was one of the main beneficiaries of trade liberalisation, following the implementation of the Association Agreement between the European Union and the Republic of Moldova. The positive growth of exports was determined by the elimination of tariffs and the tariff liberalization for exports.

De facto, the Association Agreement eliminated the tariff barriers for 91% of the domestic products. During the last five years, a series of legislative acts were adopted and modified, and a large number of normative regulations aimed at ensuring the conformity of domestic products and their connection with the technical and sanitary standards in the European Union were approved, in particular:

- Law on subsidy principles in the development of agriculture and the rural environment - the document provides the policy framework for providing subsidies in a predictable and transparent way, including mechanisms for increasing the funds available for subsidising agriculture.
- The national strategy for agricultural and rural development for years 2014-2020 - the document contains the overall vision of the Government on the sector and the priority actions for implementation. One achievement was also the mid-term evaluation of the effects and impact of the strategy, with adjustments being introduced to ensure that all the objectives are met by 2020.
- A large list of technical regulations, which gradually align the national standards to European ones to extend export capacities: the requirements for meat production and placement on the market, the quality requirements for fruit and vegetables at all stages of production and packaging, the requirements for quality of milk and dairy products.

### CONSTRAINTS

The general degree of fulfilment of the commitments undertaken by the Republic of Moldova in the chapter on agriculture and rural development in the Association Agreement is a modest one, in particular, related to the transposition of the EU directives meant to adjust the national norms to the European standards.

The arrears and delays registered did not allow the expansion of trade in products of animal origin (except honey and caviar). The positive impact of exports was determined mostly by tariff liberalisation and less by investment in agriculture or by the transfer of technology. Without changing the approach, the export potential will be capped, as tariff liberalisation produces temporary effects, and these, for the most part, have already been consumed. The lack of private investment in the agri-food processing sector prevents the added value of agricultural products from increasing.

At the same time, the cap can also occur due to the geographical concentration of exports - more than half of the agri-food exports are oriented to only three markets: Romania, Italy and the United Kingdom. Thus, special attention will be paid to the issue of geographical diversification.

Another obstacle remains the reduced capacity of farmers to export agricultural production, including due to the underdeveloped market of logistics services, but also to the monopolies that create bottlenecks in the market.

### PRIORITIES

Given that the agri-food exports are approaching the ceiling, it is necessary to take actions to boost the volume of exports, but also to ensure the irreversibility of the positive trends registered during five years of implementation of the Association Agreement, namely:

1. **Increase the pace in the transposition of EU directives** aimed at adjusting national standards to European standards, enhancing product quality, protecting consumer rights and increasing exports - gaining the right to export animal origin products must be a priority for the Government of the Republic of Moldova.
2. **Switch to high technology product exports** - create tools to facilitate and encourage private investments to increase the added value of agricultural products.
3. **Reduce monopolies on the export of agri-food products** - given that the agri-food production sector has been one of the main beneficiaries of trade liberalisation, actions must be taken that will encourage competition and allow all farmers access to the EU market.
4. **Promote cooperation at local level through LEADER instruments**, addressing economic, social and environmental issues - at EU level, the programme has contributed to improving the development potential of rural areas, by capitalising on local initiatives and competences. Thus, ensuring a favourable legal framework for the Local Action Groups, created by LEADER, will be among the priorities.

## COOPERATION IN THE ENERGY SECTOR

### PROGRESS

The legal provisions of the Association Agreement and the DCFTA in the energy sector consist largely of commitments made in the context of the accession of the Republic of Moldova to the Energy Community. Thus, after the adoption of the Law on energy, but also of the previous laws on natural gas and electricity, the Republic of Moldova officially transposed the Energy Package III at the level of primary legislation. At the same time, efforts have been made to adjust the legal norms in the field of renewable energy, as well as energy efficiency - elements of the Energy Package III.

Progress has been made on the interconnection between the Republic of Moldova and Romania in the gas field. It happened, in particular, after the privatisation of "Vestmoldtransgaz" by the Romanian company "Transgaz", which committed to build the Ungheni-Chisinau Gas pipeline within up to two years, investing up to 93 million euros for this purpose.

### CONSTRAINTS

Although theoretically, to a large extent, the Energy Package III was implemented at the level of primary legislation, compliance with these provisions occurs unevenly, with serious delays especially for the separation of the gas sector, but also with other deficiencies. Also, an important limitation in the effective implementation of the commitments derives from the fact that the supply of natural gas, as well as electricity, together with the current infrastructure, corporate structures and supply arrangements are closely linked to the installations in the Transnistrian region, which Chisinau does not control.

As regards the development of diversification projects of interconnection to the networks in Romania, both for electricity and natural gas, these require considerable investments from European sources and further implementation of secondary legislation, where delays are registered. In terms of energy efficiency, the *Acquis* of the Energy Community is respected only partially, at the same time, various cases of corruption related to the allocation of energy efficiency funds are reported.

Also, according to the new legal framework, NERA was to gain much greater independence from the Parliament, but the events of recent years have demonstrated a clear political interference in setting prices on natural gas and electricity, but also on petroleum products.

### PRIORITIES

The reform and modernisation of the energy sector of the Republic of Moldova is a challenge of the highest priority for both economic and geopolitical reasons. The provisions of the Association Agreement are relevant for the necessary reforms of the energy sector policies, and the prospects for diversifying the sources involve major investments. Therefore, it is necessary to:

- 1. Advance in the adjustment of the legislative / normative framework**, beyond the adoption of the primary legislation, to ensure the sustainability of the projects of diversification of energy sources and of interconnection.
- 2. Ensure effective independence of the energy regulating institution (NERA)** and avoiding the political interference in its activity in accordance with the provisions of the Energy Package III.
- 3. Prepare the necessary framework related to the commitment to maintain the minimum level of oil stocks**, in order to anticipate a subsequent negative impact.
- 4. Promote and support the generation and use of energy from renewable sources**, according to the new legal framework, together with the strengthening of the institutional framework.

## TRANSPORT

### PROGRESS

The implementation of the Association Agreement has contributed to the relaunch of the transport sector in the Republic of Moldova, laying the foundations for the development of an efficient infrastructure and improvement of transport safety.

In the last five years, the financial allocations for both the improvement of national roads and the repair of local arteries have increased. The rehabilitation of the national road network was supported by the development partners (i.e., the European Bank for Reconstruction and Development, the European Investment Bank). The financial means offered for the strategic development of the transport exceeded the amount of 300 million euros. While in the framework of the "Good Roads for Moldova" Programme, 1200 km of local roads have been rehabilitated during 2018.

The field of civil aviation also registered a substantial increase as a result of the accession of the Republic of Moldova to the European Common Aviation Area. The liberalisation of air transport services has contributed to attracting low-cost operators, reducing prices for passengers, diversifying routes and increasing competition. In 2018, the number of passengers reached 2,830,000, an increase of 60% compared to 2014.

During the reference period, progress was also made on the improvement and rehabilitation of the railway infrastructure in the connection directions with TEN-T. After several delays, the feasibility study for the rehabilitation of the Bender-Basarabeasca-Giurgiulești railway line was completed and, at the beginning of 2019, the tender for the rehabilitation of this railway line with a length of 233 km was announced. The "Railways of Moldova" signed a contract for the purchase of 12 new locomotives, which will be delivered in 2020.

### CONSTRAINTS

The hasty planning and implementation of the "Good Roads for Moldova" Programme has also resulted in wasted resources and low-quality roads. Thus, during the monitoring of the Programme, gaps in the process of implementation the works have been repeatedly pointed: the reduced capacity to use the budgetary resources; poor control over road quality; lack of markings and rainfall leaks, and failure to comply with all construction standards. At the same time, several commitments for the improvement of the national roads, signed within the Project Supporting the Programme in the Roads Sector, were not implemented within the established deadline, with subsequent need to early terminate contracts of works.

In the field of civil aviation, there are delays in the transposition of EU regulations, in particular, in the implementation of the aeronautical safety and security standards applied in the European Union. Eleven companies from the Republic of Moldova were included in the latest report prepared by the European Commission in the list of airlines that do not meet international safety standards.

A major objective of the Railway Sector Rehabilitation Programme is the restructuring of the "Railways of Moldova". The action has been postponed several times, and the authorities have thus far failed to reorganise the company, even with available external financing.

### PRIORITIES

The field of transport has a significant impact on the economic development of the country, and at present the opportunities offered by the Association Agreement are not fully capitalised on. Delays in the transposition of European standards affects the safety and reliability of the transport in the country. The following actions are necessary:

- 1. Approval of the new Regulations on periodic technical inspection** - the authorities have delayed the adoption of this document; the initial term being exceeded by two years. The decision dating from 1999 is outdated and does not answer to the problems of transport: environmental protection and traffic safety.
- 2. Improvement of the strategic planning framework for major investments in infrastructure** must be achieved in compliance with the best practices in the field, such as fiscal responsibility, capacity to use resources and ensure control over the quality of roads.
- 3. Completion of the restructuring process of the SE "Railways of Moldova"** - the existing rail transport is inefficient. Although there is support from development partners, the speed of reform is far too small. It is important to implement the measures stipulated in the AA, starting with the restructuring of the "Railways of Moldova" to improve the sector and increase the quality of the rail transport.
- 4. Overcome arrears in the transposition of EU directives in the field of air transport** - over the last five years, AA implementation has focused more on liberalising air services and less on transposing EU regulations on civil aviation security (eg, Law on Aviation Security, National Program for Civil Aviation Security).

## ENVIRONMENT

### PROGRESS

The implementation of the Association Agreement has determined the administrative reforms of the environmental institutions, improved the quality and increased the number of environmental policy documents. In 2014, the National Environmental Strategy was adopted, which contains actions planned by the authorities related to the European legislation, norms and standards to be applied in the Republic of Moldova until 2023.

As a result of the institutional reform, the Environmental Agency and the Environmental Protection Inspectorate were created. The Environmental Agency is responsible to implement the environmental tools committed by the authorities when signing of the AA: strategic environmental assessment and integrated waste management.

In 2016, the Republic of Moldova signed the Paris Agreement on climate change. As a result, the National System of Monitoring and Reporting of Greenhouse Gas Emissions was approved. Given the fact that the country has committed to reduce its gas emissions by 2030, it is necessary to create a framework to allow monitoring of greenhouse gases and to assess progress.

Due to the active involvement of the civil society and the support from the European institutions, the authorities were able to obtain positive results in the negotiation process related to hydropower expansion of Ukraine. The parties agreed to stop the work until the strategic environmental assessment was carried out, a mandatory requirement deriving from the EU directives transposed into national legislation.

### CONSTRAINTS

Although some achievements were registered in the adoption of policies and the institutional structure in the field of environment, so far the Republic of Moldova has not made much progress from the qualitative point of view in the field of environmental protection.

Waste continues to be a serious problem for the villages and cities of the country, over 90% of the accumulated waste being dumped in landfills without recycling. The reduced recycling capacity affects the air, water, soil and people's health - especially those living in areas close to the dumps.

Modest results were also registered in the integration of environment policies into other sectoral policies, such as transport. Transport is the largest generator of CO<sub>2</sub>; thus, more attention should be paid to promoting an integrated approach to environmental protection.

### PRIORITIES

Environmental legislation and policies are complex, and the institutional capacities to transpose EU directives, as well as their de facto implementation, will play a decisive role in eliminating the delays in environmental protection and climate policies. The following are necessary:

- 1. Increase the pace of elimination of arrears of practical application of EU directives in the field of environmental protection** - during the last five years, the authorities have developed and approved a large number of programmes and strategies in various fields; however, the practical results to improve water quality or reduce air pollution are rather modest.
- 2. Continue negotiations with the Ukrainian authorities on the construction of the Dniester hydroelectric power station** - although, at the moment, the work has been stopped, it is important for the authorities to be fully involved in the discussion process, both by collecting data and evidence related to the impact of this power station on the Republic of Moldova, as well as through the transparency of the process, so that the civil society is also informed about the content of the negotiations and the accumulated data.
- 3. Prevent waste formation and recycling** - waste management remains a challenge for the authorities. Although the National Environmental Strategy is in its sixth year of implementation, the actions taken were far too limited to improve waste management in the country.

## REGIONAL DEVELOPMENT

### PROGRESS

The opportunities offered by the Association Agreement boosted socio-economic development and laid the foundations for a sustainable development of the regions, including by applying the innovative mechanisms of the cross-sectoral development projects.

Cross-border programs were launched, which aim to develop the local economy and improve the quality of people's lives: Romania-Moldova 2014-2020 Programme (EU contribution - 81 million euros), Black Sea Programme 2014-2020 (EU contribution - 49 million euros).

With the support of the German International Cooperation Agency (GIZ), the capacities of local actors in the field of regional development and the activity of regional development councils have been strengthened. Improving planning and implementation capabilities is an essential step in modernising local public services.

The concept of urban revitalization was piloted in six cities in the country: Bălți, Cimișlia, Comrat, Edineț, Ocnița and Ungheni. During 2019, with the support of the development partners, this pilot project is to be extended to eight other cities. The concept of revitalization of deprived areas involves investments in infrastructure to repopulate these regions and to offer them additional potential for economic growth.

### CONSTRAINTS

The development gap between urban and rural areas remains significant. The rural population does not have access to basic public services, such as water and sewage or solid waste management. Although the authorities endeavour to identify the sources of funding for regional development projects, the objectives in this sector set by the Action Plan for the implementation of the Association Agreement have not been fully achieved. So far, the Concept of the National Territory Planning has not been adopted, which should set the general principles of spatial planning and serve as a basis for similar regional plans. The document was to be approved by the beginning of 2018.

One problem is also the small involvement of the local civil society in the activities of regional planning and programming, or in those of public procurement and management of public services. The participation of citizens and civil society in the processes of regional development will contribute to the initiatives aimed at reducing poverty, but also significantly improving the quality of life in the regions.

At the same time, there is a low degree of cooperation between central and local institutions, and this fact contributes to diminish the impact of the implemented actions and leads to low efficiency of public funds.

### PRIORITIES

The regional development must have a leading place and be among the main areas of action of the authorities, so that the citizen can benefit from qualitative local public services. The following actions are needed:

- 1. Evaluation of the effects and ex-post impact of the implementation of the projects financed by the National Regional Development Fund**, necessary to improve the future interventions within the Regional Development Program.
- 2. Adopt the Concept of the national territory development plan** - in the absence of an overall vision, it is difficult to promote an integrated regional development policy. Moreover, that document should be the basis for the development of regional plans for spatial planning.
- 3. Improve cooperation between central and local public institutions**, both in terms of policy making and in implementing regional policies. At the same time, the coordination will facilitate the implementation of the Regional Development Strategy for years 2016-2020.

## INFORMATION TECHNOLOGIES

### PROGRESS

Over the last five years, the Republic of Moldova has made progress in building a dynamic and competitive telecommunications market, characterised by high speed of access to the Internet, a high level of accessibility to mobile services and technological development. According to the Annual Report on monitoring the progress of information society worldwide, the Republic of Moldova ranked 59th out of the 176 states. At the same time, the authorities endeavour to apply EU best practices to create a favourable environment for the development of information technologies.

During the reference period, several strategic documents were developed and approved, which come to regulate the field of information technologies:

- The national cyber security programme of the Republic of Moldova for 2016-2020;
- The concept of information security of the Republic of Moldova;
- The information security strategy of the Republic of Moldova for years 2019-2024;
- The minimum mandatory cyber security requirements.

One of the major objectives of these documents is to counter the threats to informational security and to combat cybercrime. At the same time, their implementation will strengthen operational capacities and streamline the processes of internal coordination and external cooperation in the field of information security.

After a long period of discussions and delays, the first steps were taken to move to digital terrestrial television. Thus, at the end of 2016, the first digital multiplex offering national coverage was launched.

### CONSTRAINTS

Switching to digital terrestrial television proved to be more difficult than the authorities anticipated. In the State Budget, sufficient financial sources have not been planned to cover the transition costs for the socially vulnerable groups (procurement of signal decoding equipment) or for the local TV stations, which also do not have the necessary means to ensure the transition to digital television.

Although policies have been developed to improve resilience to cyber-attacks, in recent years the authorities have seen an increase in the number of crimes on national informational systems, resulting in the deletion, theft or modification of information. Ensuring cyber security must be a priority for the authorities.

### PRIORITIES

For the next period, the objective of the authorities should be to promote access to broadband networks, to improve the security of the networks and to continue the development of the public services offered online. The following actions are necessary:

- 1. Conducting the cyber security audit** - so far, no reports have been developed that would describe in detail the cyber threats and incidents, would talk about the number of people affected or the economic damages that were caused as a result of cyber-attacks.
- 2. Complete the transition process to digital terrestrial television** - the transition process has been delayed several times by the authorities. The initial deadline was the end of 2015, subsequently extended until the end of 2017, so that the legislators finally set the deadline of March 1, 2020.
- 3. Identify the financial sources to facilitate the transition to digital terrestrial television**, the lack of money being one of the key reasons for not meeting the initial deadlines. The costs are high for both parties: the citizens who have to buy special equipment for digital signal decoding, but also the TV stations that need investments to be able to switch to the digital signal.

## AUDIOVISUAL AND MEDIA

### PROGRESS

In the period 2014-2019, the media in the Republic of Moldova saw limited progress, and rays of hope were determined by the approval of the strategic documents that should lay the foundations for the development of the domestic media field: National Concept of Media Development in the Republic of Moldova and the Code of audio-visual media services of the Republic of Moldova, which transposes the provisions of Directive no. 2010/13 /EU. The purpose of these documents is to ensure the right of citizens to receive correct information, to contribute to the free formation of opinions and to guarantee the right to editorial independence and freedom of expression.

The documents contain provisions related to the limitation of media concentration, so that an individual can control at most two television licenses, and one and the same media owner cannot hold more than 35% of the audience share. At the same time, the composition of the Audio-visual Coordinating Council was changed - five representatives are to be proposed by public associations, and four – by the authorities: one from the Presidency, one from the Government and two from the Parliament (one representative being delegated by the parliamentary opposition).

### CONSTRAINTS

According to the Press Freedom Index for 2019, the media in the Republic of Moldova continues to be partially free. This is largely due to the fact that the editorial policy of the media institutions is influenced by the political interests of the owners and the existence of issues related to the transparency of the final beneficiaries.

In the last five years the development of the media in the Republic of Moldova has been limited due to the authorities' failure to act on the issue of monopoly on the advertising market. Unfair competition on the advertising market has severely affected the sustainability of independent media and without political coverage. Although the problem continued to worsen over the last few years, the Competition Council has not acted effectively in this area.

The Audio-visual Coordinating Council continues to express political preferences in the exercise of its powers. Despite the fact that both the authorities and the civil society advocate for the depoliticization of the process of appointing its members, there is no consensus on the exact mechanism of selection that would minimize political influence.

Journalists encounter barriers in obtaining information of public interest from state institutions. This is happening, although the reform of the public administration and the digitisation of services and information, on the contrary, should have facilitated the access of reporters, but also of citizens to the information held by the authorities.

### PRIORITIES

The erosion of press freedom is both a symptom and a determining factor in the disintegration of democratic institutions and principles. Therefore, it is imperative that the authorities in the sector intervene to implement solutions that would solve the problems of the media domain. The following actions are required:

- 1. Exclusion of anti-competitive practices in the advertising market**, because the independent press cannot develop when there is no fair access to the advertising market. The interventions of the authorities were timid and inefficient to increase competition. The Competition Council must exercise its effective regulatory function, investigate and exclude the monopoly on the advertising market, and it must operate on the basis of fair competition principles.
- 2. Strengthening the independence of the media institutions** - both the Government and the Parliament could intervene with measures to limit the political influence on the media in the Republic of Moldova. Under the current conditions, the work of the Working Group to improve the media legislation, in particular is welcomed, given the fact that the previous Legislature did not approve all the normative acts discussed and proposed within the working group created in the past.
- 3. Ensure a true independence of the Audio-visual Coordinating Council and the observer councils of the public broadcaster**, including by applying criteria to appoint members based on professionalism and not on political representation.

## COOPERATION WITH CIVIL SOCIETY

### PROGRESS

The cooperation with the civil society, as a result of the implementation of the Association Agreement had modest results. In 2016, the percentage designation mechanism for the support of civil society was approved. According to the reports developed by the State Tax Service, in 2018, this right was used by over 36,000 citizens, and the transferred amount exceeded eight million lei (the equivalent of 408,000 euros). Compared to 2017, both indicators increased: the number of citizens by 44% and the money transferred - by 47%.

The Parliament approved the Strategy for the development of civil society for years 2018-2020 and its Action Plan, but not enough funds were allocated to carry out the planned measures. The document was developed in a fairly participatory way, being consulted with the stakeholders and with the main actors in the civil society. Transparency in the process of drafting that document was a rare exception. In 2018 the Parliament adopted in first reading the draft Law on non-commercial organizations, developed for a long time and in cooperation with numerous actors. Although the Government has made several attempts to modify essentially this draft law before its approval in the Parliament, the reading agreed by the parties involved in the development process was submitted to the Parliament.

### CONSTRAINTS

The dynamics of the relationship between civil society and the authorities was negative, and the activities set out in the Action Plan on the implementation of the Association Agreement did not exactly contribute to the ambitious objectives included in the Agreement. The public discourse was focused on division and conflict, instead of focusing on a constructive dialogue, aimed at strengthening cooperation between civil society and the public sector.

There have been cases of intimidation of civil society organisations. Prior to the approval of the draft law on non-commercial organizations by the Government, there were attempts to modify its essential parts, in particular, by reducing the capacity of civil society organisations to function independently and by limiting their involvement in the development of public policies. The delay in adopting the law in the final reading deprives the civil society of important tools to increase their efficiency in daily activity.

Also, some representatives of the civil society have exposed themselves to the danger of continuous restriction of the activity of the nongovernmental organisations by blocking the access to information of public nature, by not admitting them to working groups and by using a provocative rhetoric towards the associative sector.

Dinamica relației dintre societatea civilă și autorități a fost negativă, iar activitățile stabilite în Planul de acțiuni de implementare a Acordului de Asociere nu au contribuit întocmai la obiectivele ambițioase incluse în Acord. Discursul public a fost concentrat pe dezbinare și conflict, în loc să fie axat pe un dialog constructiv, care să urmărească consolidarea cooperării dintre societatea civilă și sectorul public.

### PRIORITIES

Restoring trust and resetting the dynamics in the relationship between authorities and civil society organisations is imperative for the strengthening of the cooperation framework needed in the process of monitoring and implementation of commitments provided by the Association Agreement. The following actions are needed:

- 1. Authentic involvement of citizens and civil society in the decision-making process** - increasing transparency in policy-making and decision-making, including by broadly involving citizens in the budgeting process, starting with identifying and setting spending priorities; using multiple channels to request the opinion of civil society organisations; keep up to the promises and establish a permanent dialogue and exchange of information between authorities and civil society.
- 2. Improve the financial sustainability of civil society** - despite the recorded results, the percentage designation mechanism, in its current form, is not sufficient to ensure the sustainability of the non-commercial sector in the Republic of Moldova. Simplifying the appointment procedures will increase the number of taxpayers. At the same time, a clearer regulation of the mechanism for granting direct financing is recommended, including by increasing the transparency of the way of granting these funds.
- 3. Adopt in final reading of the draft law on non-commercial organisations** - considering that in the past, there have been attempts to amend the draft developed by experts, the approval of the document in the current version would send a signal that the authorities are ready to take the first steps to restore the relationship with civil society.
- 4. Allocate the necessary funds** to implement the Civil society Development Strategy for years 2018-2020.

#### 4. TITLE V - TRADE AND TRADE RELATED MATTERS (DCFTA)

Even though the first years of the DCFTA were marked by serious economic and political problems, which affected the domestic demand and the confidence of the business community, the Moldovan exports to the European market registered a positive trend. The exports of agri-food products benefited the most from the new trading regime, including categories of products that are subject to tariff quotas. Despite the impressive growth of exports, there are also a number of concerns regarding their concentration both in geographical profile and in terms of the structure of exported products. This is aggravated by the fact that the given exports include a rather low added value (either primary agricultural products or industrial products processed under the *lohn* regime), which highlights the low level of competitiveness of the domestic producers and which, in turn, further undermines the sustainability of recorded export growth. At the same time, despite the numerous speculations that anticipated an alleged invasion of imports from the European Union on the market of the Republic of Moldova, this did not take place, being registered even a decrease in the reference period. As a result, in 2018, there was a decrease, compared to 2014, of the imbalance in trade between the Republic of Moldova and the EU, with the trade balance deficit reduced by 25%.

At the same time, sustained efforts have been made in the part of the transposition of the horizontal legislation covering the general methodology and the institutional configuration in the field of technical barriers to trade (TBT). Although the institutional framework for quality infrastructure has continued to be reformed, a comprehensive strategy to restructure the entire system is lacking, and the process of transposition of sectoral directives is a cumbersome one, as is the process of aligning secondary legislation with the new primary legal framework. Most of the time, the problem lies in the institutional capacity of the authorities, which remains quite weak and where human resources are either limited or lack the necessary training. At the same time, there is a rather low level of implementation of European standards, due to the costs associated with adopting the standards at the company level and which reduce their attractiveness in favour of GOSTs, which are still used.

In the customs area, several actions have been taken to implement the concept of authorised economic operator (AEO) and electronic customs declarations; to ensure the protection of intellectual property rights and tobacco control; to promote the concept of a one-stop shop and introduce anti-corruption measures. Also, new rules of origin of goods were adopted, according to the regional Convention on the pan-Euro-Mediterranean preferential rules of origin, which introduced the concept of diagonal cumulation. At the same time, the approval of the new Customs Code is delayed, but also of the legal framework related to the respective Code. And the usefulness of the AEO concept is, for the moment, undermined by the European side's non-recognition of its status.

Exports of agri-food products from the Republic of Moldova benefited more from the DCFTA compared to those of industrial products. During this period, an important act was adopted for the agri-food sector, namely the National Food Safety Strategy for 2018-2022. This is the first strategic document describing the national food safety framework, as well as the main obstacles in this area. One of the major objectives, in this context, is to expand the list of products of animal origin with right to export on the EU market, with the attainment of the right to export eggs and, subsequently, poultry meat, an action that the authorities have for several years in a row promised to accomplish.

In the field of competition, the enforcement of legislation seems to have improved, with an increase of identified cartels, as well as of the number of applied fines. The amendments of the Criminal Code to allow the application of the leniency policy, provided for in the Competition Law, have not yet brought tangible results on problematic markets, such as oil, pharmaceutical or insurance products. In addition, in order to build confidence in the institutional capacity of the Competition Council to promote healthy competition, it is essential to publish the results of the investigations carried out by the Council.

The most visible advances in the field of financial services were registered in the banking sector - both on the transposition side and on the implementation of the European legislation by banks. Thus, the Basel III regulatory regime was transposed through a new banking law and a series of related regulations. In addition, the events of 2014-2015 determined the acceleration of the transposition of the mechanism of prevention and management of systemic crises - respectively, the Law on Bank Recovery and Resolution. The pace of transposition of the directives and the development of the financial system, by boosting the insurance sector, the capital market and the pension system, must remain a priority for the political environment.

The connection of the national public procurement system with the European norms derives largely according to the requirements and the established timetable. The institutional framework was completed with an independent and autonomous dispute resolution body - the National Agency for the Settlement of Disputes. The national legislation in this field also corresponds to the main European directives. Priority remains the full implementation of the MTender electronic public procurement system and the enhancement of the institutional and human capacities of all contracting entities, including central entities, such as the Public Procurement Agency.

## EXPORTS

### PROGRESS

Even though the first years of implementation of the DCFTA were marked by serious economic and political problems, which affected the domestic demand and the confidence of the business environment, the evolution of Moldovan exports on the EU market was positive (except for 2015). The increase in exports to the EU made up for the decrease in exports to other destinations, such as the Russian Federation, as a result of imposing trade restrictions on Moldovan products. As a result, the EU has strengthened its position as the main trading partner of the Republic of Moldova, with about 69% of exports to the European market (in 2014, only 53%).

It is certain that the elimination of tariff barriers has had significant and immediate positive effects on Moldovan exports to the EU. Most of the new trading regime benefited the agri-food products, whose exports increased by 47% in 2018 compared to 2014. The export of certain categories of products (plums, grapes) that are subject to the annual tariff quotas exempted from customs duties, as well as of those subjected to the circumvention mechanism (wheat, barley, corn, ethyl alcohol) increased immediately after the start of the DCFTA implementation.

At the same time, despite the numerous speculations that anticipated an alleged invasion of imports from the European Union on the market of the Republic of Moldova, this did not happen, being registered even a decrease in the reference period. As a result, in 2018, there was a decrease, compared to 2014, of the imbalance in trade between the Republic of Moldova and the EU, by 25%.

### CONSTRAINTS

Despite the impressive growth of exports, we also find a number of concerns regarding their concentration both in geographical profile and in terms of the structure of exported products. This is exacerbated by the fact that the given exports include a rather low added value (either primary agricultural products or industrial products processed under the Lohn regime), thus highlighting the low level of competitiveness of the domestic producers, which undermines the sustainability of registered growth of exports. Moreover, even if the exports, within the allocated tariff quotas, showed a spectacular evolution, their early exhaustion for some products (eg. plums, grapes) indicates that their volume does not correspond to the existing export potential. Moreover, the EU's tough tariff policy with respect to these product categories makes it almost impossible to export them outside the preferential quotas.

However, we must admit that most of the preferential quotas exempted from customs duties are still far from being exhausted, and the biggest barrier in this context is the failure to comply with EU standards that would ensure access to the EU market for animal products (eg. meat, dairy products, eggs). Overall, the full non-valuation of the opportunities of the DCFTA, which derives from the non-implementation of the assumed commitments, can be attributed, to some extent, to the limited institutional capacities that have been further affected by the public administration reform.

### PRIORITIES

To ensure the full use of the opportunities offered by the DCFTA, a series of measures are required to increase its effective implementation, but also the necessary preconditions for a sustainable economic growth:

- 1. The urgent renegotiation of the tariff quotas for export to the EU for certain product categories,** taking into account their early exhaustion, but also in view of the new economic realities.
- 2. Strengthening the institutional capacities of the authorities responsible DCFTA** to reduce the risk of a faulty implementation of the commitments, in particular, after the reform of the public administration.
- 3. Take efforts to include the Republic of Moldova in the group of third countries that have the right to export animal products to the EU market** to increase the effective use of the export opportunities offered by the DCFTA.
- 4. Promote the country's investment attractiveness in areas with high added value from the DCFTA perspective,** in particular, in activities using local raw material for processing and ensuring greater technological advancements of exports.

## STANDARDISATION, METROLOGY, ACCREDITATION AND CONFORMITY EVALUATION

### PROGRESS

During the reference period, sustained efforts were made in the part related to the transposition of the horizontal legislation, which includes six key acts and covers the general methodology and institutional configuration in the field of TBT. They establish a common framework of general principles and reference provisions for the marketing of products, as well as criteria for sectoral EU Acquis legislation, offering definitions of fundamental concepts.

The institutional framework for quality infrastructure continued to be reformed. The process included the adoption of the legal / normative framework necessary for the creation / functioning of new institutions or the reorganization of the old ones.

Also, efforts have been made to ensure the participation of the relevant national structures in the European and international organizations for standardization, metrology, conformity assessment and accreditation. At the same time, 24,290 European standards were adopted as Moldovan standards, out of a total number of 26,496 (91.7% adoption rate). At the same time, there is a continuous process of identifying and withdrawing the standards (in particular, GOST) that are contradictory to the new European standards.

### CONSTRAINTS

The process of transposition of the sectoral directives is a cumbersome one, being delayed, in particular, with respect to the Community acts that are part of the "old approach", which regulate products that do not require an EC mark and for which specific rules and procedures are applied. Moreover, a dissonance persists in the process of aligning the secondary legislation with the new primary legal framework. Most often the problem lies in the institutional capacity of the authorities, which remains quite weak, and the biggest concern is the human resources, which are either limited or do not have the necessary training especially at the level of policy development.

Although, during the reference period, a series of actions have been undertaken aimed at developing and consolidating some elements of the conformity assessment system, for the time being, a comprehensive strategy to restructure the entire system is lacking. Even if the quality infrastructure field has been reformed, certain shortcomings persist with respect to the laboratories that do not allow the evaluation of all the necessary parameters. At the same time, no assessment was carried out that would prioritise the real needs of these entities, ensuring their sustainability. However, even if they have the necessary capacities, in many cases, the regulatory framework either does not yet exist or has not yet been adapted, making it impossible to capitalize on their potential.

At the same time, the level of implementation of European standards is quite low, because of the costs associated with the adoption of company-level standards (processes, technologies, knowledge), which erode their attractiveness in favour of GOSTs. Last but not least, the mentality of the national producers does not allow the extension of the application of the standards, since the strategic thinking of investing in favour of future benefits versus the present profit is lacking. In addition, GOSTs are also used in relation to trading partners where they are still valid (eg. Russian Federation, Belarus, Kazakhstan, etc.).

### PRIORITIES

The improvement of the field in question is a precondition not only for accessing new export markets, but also for the improvement of the national economy and increasing competitiveness. However, in order to advance in this regard, the efforts of the national authorities are not sufficient, and there is also a need for proactivity from the business environment.

1. **Strengthen the institutional capacities from the perspective of the human factor**, which would guarantee a proper implementation of all the commitments.
2. **Improve the quality infrastructure and ensure its functionality** to be able to offer the full range of services to the business environment.
3. **Adjust the secondary legislative / normative framework** to the primary legislation adopted according to the commitments in the Association Agreement.
4. **Develop technical and financial support programs for companies**, in particular for small and medium-sized enterprises, in the process of implementing EU standards and entering the EU market.
5. Fulfil the conditions to sign the Conformity assessment and acceptance of industrial products Agreement.

## SANITARY AND PHYTOSANITARY MEASURES

### PROGRESS

Exports of agri-food products benefited more from DCFTA compared to industrial products. In 2015-2018, exports of agri-food products increased by USD 820 million compared to the period 2011-2014 (+ 52%). Of the agri-food products, the most remarkable growth is attested to sunflower seeds (2.7 times), wheat (3.7 times), wines from fresh grape (1.7 times), fresh grapes (6, 3 times) and barley (1.7 times). On the animal products side, progress has been more modest, at present on the EU market only honey and caviar are exported.

The final list of legislative harmonization in the field of sanitary and phytosanitary measures was finalized in 2015, the maximum term of implementation of the approximately 230 acts being 2020. The documents were included in the draft NAPIAA for years 2017-2019. An important act was approved during the reference period, namely the National Strategy on Food Safety for years 2018-2022. This is the first strategic document describing the national food safety framework, as well as the main obstacles in this area. The Action Plan for the Strategy presents six priority areas for intervention, with a well-defined timetable.

### CONSTRAINTS

In spite of some progress, several important arrears are to be removed in order to improve the regulatory framework and the possibilities for export of agri-food products, in particular those of animal origin. So far, the draft Law on zootechnics, which is about to transpose about 20 EU acts, has not been adopted, and the draft Law on animal by-products not intended for human consumption has been voted only in first reading.

The biggest downside, however, remains the inability to export animal products - in particular, category B chicken and eggs. Despite the approval of an action plan in this regard, the limited human resources, but also massive investments needed to adjust the production process to all the sanitary norms provided by the EU legal framework obstruct the progress. Also, major investments are needed to establish a production chain and a technological process adapted to European standards, which is missing today. Manufacturers also face difficulties in ensuring traceability. A very small number of local meat producers have a technological process in line with European standards.

### PRIORITIES

The agri-food products represent, for the Republic of Moldova, an enormous potential that, for various reasons, is not fully used - including due to the political and budgetary instability, but also to the central public administration reform, recently implemented. The exceptions that apply – related to the isolated recognition of some companies / producers - are a step forward, but an insufficient one for a major impact. Therefore, coordinated actions should be taken in the following directions:

- 1. Carrying out a national assessment of progress and obstacles in the implementation of sanitary and phytosanitary measures.** After this evaluation, additional budgetary resources are needed for specific programs in order to improve the infrastructure in the field.
- 2. Expand the list of products of animal origin with export right on the EU market,** obtaining the right of export for eggs and subsequently for poultry meat. Actions in this area should aim at two directions: the regulatory part and the support given to the producers.
- 3. Implement the Strategy on food safety and further transposition of the legislation on sanitary and phytosanitary measures according to the planned schedule.** This will allow a high level of public health protection to be achieved, while also encouraging exports to the EU.

## CUSTOMS AND TRADE FACILITATION

### PROGRESS

Measures have been taken in the following fields harmonise the national legislation with the EU Acquis and international norms: implementation of the concept of authorised economic operator (AEO), electronic customs declarations, protection of intellectual property rights, tobacco control, promotion of the concept of a one-stop shop and introduction of some anti-corruption measures. Immediately after the entry into force of the Agreement, a new classifier of goods (updated regularly), which, according to the European Union model, includes the customs tariff, was aligned with international standards. In the same context, new rules of origin of goods have been adopted, in accordance with the regional convention on pan-Euro-Mediterranean preferential rules of origin, which introduced the concept of diagonal cumulation.

Also, significant changes were made to the way the tax is levied for environmental pollution, thus eliminating the discrimination between domestic producers and importers, in accordance with WTO rules. Similarly, a National Trade Facilitation Plan was adopted in accordance with the Trade Facilitation Agreement within the WTO. Last but not least, a new legal framework on customs services was adopted to improve the governance capacity of the Customs Service, which extends and unifies the provisions related to the Customs Service from the Law on service in customs bodies and defines the organisation and main functions of the Customs Service.

### CONSTRAINTS

The biggest shortcoming in the customs field is the not approved new Customs Code, which is to transpose the provisions of the EU Customs Code and implementation of which has been delayed for a long time. Moreover, the process is quite complex and requires sustained efforts from all the actors involved in the development of the related framework. Equally, sustained efforts, but also external assistance are imminent for the implementation of the New Automated Transit System (ATS).

Even if the concept of AEO was introduced, the non-recognition of the status in question by the European side undermines its usefulness, and additional efforts in this regard are considered imperative. Moreover, a major challenge in the customs field is represented by the bad situation of the infrastructure of the customs posts. At the same time, for the moment, the anti-corruption measures taken by the customs authorities appear to be ineffective, according to the surveys carried out by the profile organisations, the Customs Service is still perceived, unevenly, as a corrupt one, including the process of investigating corruption cases where the Customs Service is involved.

### PRIORITIES

The existence of a modern Customs Service that would provide high quality services is essential to ensure the functionality of the DCFTA, able to facilitate the movement of goods, use modern technologies and quickly and efficiently identify corruption and cases of smuggling. The following actions are necessary:

- 1. Accelerate the process of harmonisation of national customs legislation** with the EU one by adopting the new Customs Code, as well as revising and adjusting the entire legislative / normative framework.
- 2. The mutual recognition of AEO certificates by the European side undermines their usefulness, therefore obtaining mutual recognition is imperative.**
- 3. Continue the process of improvement of the infrastructure of the customs stations,** which will contribute to the fluidisation of trade and increase the quality of the provided services.
- 4. Promote the electronic solutions in relations with the business environment,** by developing dedicated information systems (promoting the concept of E-Customs and Single Window).
- 5. Ensure the functionality of the New Automated Transit System (ATS),** including the development of the necessary modules in the Asycuda World Integrated Customs Information System.
- 6. Change the perception of the integrity of the Customs Service,** by identifying the institutional factors that favour or can promote corruption, as well as the exclusion or reduction of their effects.

## FINANCIAL SERVICES

### PROGRESS

Most of the commitments made in the field of financial services were set according to the schedule set out in Annex XXVIII-A to the Agreement. The most visible advances were registered in the banking sector - both on the transposition side and on the implementation of the European legislation by the banks.

Thus, the Basel III regulatory regime was transposed through a new banking law and a series of regulations related to this law. Also, the events of 2014-2015 determined the acceleration of the transposition of the mechanism of prevention and management of systemic crises, namely, the Law on Bank Recovery and Resolution. It establishes additional powers for the central bank with regard to intervention on a troubled bank, increased demands on persons with key functions and adequate fines for bank administrators if they do not comply with banking law or ethics. Last but not least, the need to prevent possible new crises also determined the adjustment of the mechanisms of guaranteeing bank deposits, by starting the increase of the guarantee ceiling and by establishing individual risk indicators for each bank.

### CONSTRAINTS

Despite the considerable reforms in the banking sector, as a result of the frauds that occurred in 2014-2015, the general perception of the company and the economic environment is that these transformations were delayed or that they had certain deficiencies. Moreover, even if the transposition and implementation of European legislation in the banking sector has had an overwhelming support at the political level, we cannot speak of the same situation in areas other than the banking, such as the capital market, insurance or non-bank lending organisations. On the one hand, the European legislation is quite complex for market participants, on the other hand, the development of these sub-sectors of the financial market is quite slow compared to the EU.

Also, the low incomes and financial knowledge of the population cannot be neglected as constraints, which do not allow the formation of a middle class. Under these conditions, the insurance sector continues to be dominated by compulsory auto insurance, while other types of products are not popular with consumers. At the same time, the capital market was somewhat encouraged by the trading of bank shares in the process of shareholder transparency, but this is not a sustainable activity in the sense of sector development. Also, non-bank lending is growing rapidly on the account of lending to natural persons, but this process involves certain risks in the context of the persistence of a superficial mechanism of supervision and regulation of these institutions, as well as of the gaps encountered in the credit history chain.

### PRIORITIES

The transposition of European legislation into national law does not necessarily correspond to its implementation by financial institutions. For various reasons, some sectors remain poorly developed, the participants in the capital market or those in the insurance sector not having the capacity to align with the European quantitative and qualitative requirements. Therefore, the main priorities for the next period should take into account:

- 1. The revision of the principle of dynamic transposition of the EU legislation or finding a compromise solution is desired by the majority of participants in the non-banking financial environment, who advocate in favour of avoiding those overly sophisticated mechanisms that are not correlated with the level of development nor with the risks present in certain sectors. (eg. MiFid II for the capital market and Solvency II for insurance).**
- 2. The development of the financial system based on the rules transposed according to the Association Agreement must remain a priority for the political actors.** At the consumer level, it is to take into account the need to increase financial inclusion, improve payment systems and increase the financial skills of the population. At the system level, political actors must find that balance, whereby the financial system is a stability factor for public finances and a capital provider for the real economy. In this respect, the development of the capital market, insurance or private pensions remains paramount.

## TRADE WITH SERVICES AND E-TRADE

### PROGRESS

The contribution of the main economic activities from the services branch (transport and storage, information and communications, financial activities) to the formation of the gross value added was largely constant in 2012-2017. At the same time, the balance of payments on the services segment registered a positive balance over the whole period, increasing on average by 26% annually. In 2018, the export of services exceeded the import by USD 373 million, including due to the actions of liberalisation of the services sector that derives from the provisions of AA.

There have been several changes to the legislation regarding the regime of foreigners in the Republic of Moldova, by which the procedures and terms of documentation of foreigners wishing to work or have commercial activities in our country have been simplified, including the optimisation of the procedure for obtaining the residence permit. Other achievements refer to: the approval of the Law on information technology parks, the approval of the Law of postal communications, the amendments of the Law on electronic communications, thus transposing the provisions of six directives in the field, the implementation of the Strategy of development of the information society "Digital Moldova 2020", the creation of the working group for the development of amendments to the Law on access to properties and the shared use of infrastructure associated with public electronic communications networks. An important step in ensuring the security of citizens and persons on the territory of the country was made by launching the Service 112. In March 2018, the service has processed over 4.3 million calls so far - that is, over 8000 calls daily, of which almost 65% are non-urgent.

### CONSTRAINTS

An essential constraint in the development of the service sector results from the shortage of investments and the lack of skilled labour, determined by the continuous emigration of the population. A potential solution that deserves an in-depth analysis is the further reduction of the barriers to employment of foreigners in the territory of the Republic of Moldova, which could compensate for the loss of local employment.

For the second quarter of 2018, by amending the Electronic Communications Law, it was planned to transpose Regulation 2120/2015 / EU which, among other things, obliges service providers not to charge any surcharges, compared to the national retail price, from the roaming customers in any EU Member State, for any regulated call made or received while in roaming. For unknown reasons, the law has not been modified until today. Another delay is the creation of the Bureau of Air, Naval and Rail Transport Accidents Investigation, which will have to deal with the organisation and carry out of the technical investigation activities on the safety of transport in the three areas and come up with recommendations for their prevention.

### PRIORITIES

The liberalisation of trade in services between the Republic of Moldova and the European Union has a positive impact on the Moldovan economic performance, through an increased competition. In this regard, it is important to continue the liberalisation of the sector concerned, with the following actions being a priority:

- 1. Piloting new initiatives to increase the country's attractiveness to foreigners.** The Moldovan economy is very small and its attractiveness and importance for EU service providers should not be overestimated. Therefore, the conditions to issue residence permits, licenses / authorisations should be as simple as possible.
- 2. Continuous digitisation of public services.** Although significant progress has been made in this direction, however, the need for physical visits to public institutions continues to be a bureaucratic barrier in the activity of businesses as well as individuals.

## PUBLIC PROCUREMENT

### PROGRESS

The adjustment of the national public procurement system to the EU rules is largely in line with the requirements and the established timetable. Thus, in accordance with the principle of dynamic transposition, in 2016 annex XXIX-B to the Agreement was adjusted according to the latest European directives in the field. As a result, the institutional framework was completed with an autonomous and independent body in resolving disputes - the National Agency of Disputes Resolution (NADR). After a series of delays and inconsistencies relate to the independence of this institution, at the moment we have an authority that has organizational, functional, operational and financial independence, and is not subordinated to any other public authority or institution.

In addition to the institutional framework, national legislation in this field also corresponds to the main European directives. Even if partially, the new Law on public procurement, adopted in 2015, already provides the possibility to contracting authorities to award contracts not only on the basis of the lowest price, but also on quality criteria, as well as the possibility for civil society representatives to be part of the composition of the working groups. At the same time, the timetable for the fulfilment of the commitments deriving from the AA is inserted in a roadmap included in the Strategy for the development of the public procurement system for years 2016-2020 and in the corresponding Action Plan, while the deadlines of up to eight years from the entry in force of the Agreement are being kept.

### CONSTRAINTS

Even if the transposition of the legislation is registered, somehow, when visualised, the pace of its implementation and the achievement of the objectives deriving from the spirit of the Agreement is different. Low human capacities, very complex new provisions and insufficient political will are among the main constraints in the proper implementation of the legislation. In addition, the online e-procurement system, such as *Mtender*, still does not provide transparency and complete record of the entire public procurement process. Moreover, the vague interpretation of the various terms in the legislation governing the field in question creates conditions to exclude certain sectors from the public procurement process. Also, a contradictory situation is registered in the health system, the public procurement mechanism for this sector not being fully compatible with the operational criteria of the *Mtender* system.

### PRIORITIES

The Association Agreement promoted important progress towards the improvement of the national public procurement system and connecting it to the best international practices in the field. However, further reforms are needed to ensure a proper transposition of legal provisions into practice, an important precondition for enhancing the efficiency of the public procurement system and strengthening the confidence of citizens and the business environment. Most of the commitments are set out in the Sectoral Strategy, and their implementation remains the basic priority in the field. The main priorities are:

1. **Full implementation of the electronic public procurement system *MTender*.** The existence of an electronic system is crucial to ensure the transparency, the evidence and the efficiency of the public expenses.
2. **Increase the institutional and human capacities of all contracting entities,** including central, such as the Public Procurement Agency and the NADR.
3. **Fight corruption in this sector and prohibit the participation of registered companies in non-transparent (offshore) jurisdictions.** Knowing the final beneficiaries of the participating companies is an essential factor in fighting monopolies, affiliation with politically exposed persons, etc.
4. **Evaluate the level of reciprocity offered by different external partners** within the existing agreements and promote an equivalent level of access of Moldovan companies to these markets.

## INTELLECTUAL PROPERTY RIGHTS

### PROGRESS

The national system of protection of intellectual property rights (IPR) has seen a qualitative advance in the last years, acceleration which is due to the signing of the AA, but also due to the commitments made under other international agreements in the field.

The AA does not have specific annexes and aspects specific to the national IPR system but invokes compliance with a number of international conventions and the TRIPS Agreement within the World Trade Organization (WTO). The transposition of these norms in the national legislation has led to the development of the national legislative framework and to the acceleration of the integration of the Republic of Moldova into the international and European intellectual space. This fact represents an important precondition in attracting foreign investors and in supporting the technological upgrade of the economy, stimulating the research & innovation sector and increasing the competitiveness of Moldovan products and services.

Sistemul național de protecție a drepturilor de proprietate intelectuală (PI) a cunoscut un avans calitativ în ultimii ani, accelerare ce se datorează semnării AA, dar și angajamentelor asumate în cadrul altor acorduri internaționale în domeniu.

### CONSTRAINTS

In addition to the process of harmonisation of IPR legislation, the sector also needs efficient law enforcement mechanisms, as the capacities of the judiciary and of other stakeholders are still to attain better results. Under these conditions, the system of protection of intellectual property rights cannot be viewed in isolation from the judicial system, gaps such as corruption or political affiliation strongly affecting the confidence of the business environment and, implicitly, the investment climate of the country. In addition, cases of infringement of IPRs that cannot be resolved in the national court system continue to stimulate unfair competition with negative impact on economic development. In short, the small national economy, the limited intellectual, creative and innovative activity or the low IPR culture among the business environment remain permanent constraints for the given field and affect the competitiveness of the businesses.

### PRIORITIES

Although national legislation in the field of intellectual property rights is in line with both the EU requirements and WTO rules, harmonisation must take place on a continuous basis and follow the changes taking place worldwide. Being a field strongly connected to innovations and technologies, along with those, the international norms in the field evolve as fast. Developing a favourable climate for investments in new technologies and products, with high added value for the economy and society as a whole, remains the main goal pursued by the Association Agreement in the field of IPR. In these circumstances, the priorities should focus on:

- 1. Strengthen the National IP System by continuing international cooperation** at the same time with interdepartmental and intersectoral cooperation at all levels.
- 2. Eliminate the overlapping of competences of different institutions in the field** (eg. Customs Service, Prosecutor's Office, AGEPI, Ministry of Foreign Affairs and European Integration).
- 3. Strengthen human knowledge based on adapted training programmes must remain a strategic sector of development.** The system should benefit to the maximum from the capacity building component provided by the AA, to ensure solid capacities among judges and their regular evaluation, especially as IPR disputes are becoming more frequent.
- 4. Development of support programmes for economic activities** using innovations, inventions and other intellectual property instruments, especially national ones.

## COMPETITION

### PROGRESS

In the field of competition, the application of the law seems to have improved. In 2018, eight cartels were identified compared to zero in 2016, and the total amount of fines increased to over 500 thousand euros. Although with delay, in 2018 the Criminal Code was amended to allow the application of the leniency policy provided in the Competition Law. Significant efforts have been made to implement the State aid commitments. In this regard, we can highlight the decrease of the absolute value of the reported state aid, as well as the increase of the share of the state aid authorised by the Competition Council from the total of amount of state aid. These tendencies are thanks to the completion of the support measures previously offered (including the state aid granted in the financial sector) and to the increase of knowledge through events organised by the Competition Council for state aid suppliers. During 2018, 14 state aid schemes were aligned, another 18 schemes being aligned in 2019, which allows reaching in advance the indicator of 10% schemes aligned per year.

### CONSTRAINTS

The number of complaints from the private sector is modest - less than 15 per year - which indicates a lack of knowledge of competition law or the fear of making claims against competitors in the sector. In the period 2015-2018, 126 investigations were initiated (anti-competitive agreements, abuse of a dominant position, unfair competition, anti-competitive actions of public authorities, un-notified economic concentrations), the majority being initiated ex officio, without notifications from the private environment. An important action in the respective direction, which has not been implemented, concerns the introduction within the normative framework of the obligation to notify the Competition Council when registering the economic concentration transactions at the Public Services Agency - planned for the 4<sup>th</sup> quarter of 2018.

Another important tool that is available to the Competition Council is to carry out useful investigations and studies which, moreover, can help identify the competitive constraints in different markets. This instrument is included in the PNAIAA and, in fact, is implemented in practice, according to the reports of the Competition Council. For example, in the course of 2018, the Council initiated a useful market research investigation into road passenger transport and continued at least 12 other studies. The failure to publish the results of these investigations is an essential issue, which generates a lack of confidence in the Competition Council's ability to promote healthy competition.

### PRIORITIES

Raising the level of competitive culture should be a priority for the Competition Council. In this respect, but also in order to improve the competitive environment, it is necessary to focus on the following actions:

- 1. Broaden the range of actions in relation to the competitive culture.** Efforts in this direction should go beyond organising trainings and roundtables, and include, among other things, the publication of the results of Council's investigations, following the practice of countries such as Romania, especially given that many of these studies are funded by foreign donors, including the EU. Naturally, this must be done in parallel with the strengthening of the Competition Council's capacity to conduct investigations in strategic sectors of the national economy.
- 2. Following the amendments to the Criminal Code, it would be the case that leniency policy becomes an important asset in the Competition Council's toolkit.** Visible results in the field of oil, pharmaceutical or insurance products market would be essential to strengthen the independence of the Competition Council and to increase confidence in this institution.
- 3. Further reporting of state aid schemes,** registering them in the automated information system, as well as carrying out actions to recover the illegally granted state aid.

## 5. TITLE VI – FINANCIAL ASSISTANCE, ANTIFRAUD AND CONTROL PROVISIONS

### CONTEXT

The European Union is the main development partner of the Republic of Moldova. The key objective of EU assistance is for European support to contribute to creating tangible benefits for Moldovan citizens, strengthening the rule of law, capitalising on the opportunities of the Deep and Comprehensive Free Trade Area with the EU (DCFTA), as well as strengthening transport and energy connections.

The assistance of the European Union is provided on the basis of strict conditionalities, closely linked to the results of the reform process, respect for democratic principles, the rule of law and human rights. This principle has been applied consistently in the case of the Republic of Moldova, in particular with regard to budget support programmes and macro-financial assistance. Starting with 2015, the allocation of European funds has been suspended or even cancelled. In 2018, the European Commission decided to recalibrate the assistance and its reallocation, respectively, to support other local actors, namely various reform organizations, focusing on civil society, the media, SMEs and local public authorities.

In 2017, the European Union decided to offer the Republic of Moldova a macro-financial assistance programme worth 100 million euros, which includes 40 million in the form of a grant and 60 million in preferential credit. Now, the authorities are making efforts to fulfil the necessary conditions to obtain the first instalments of this assistance, after its suspension in mid-2018.

In addition to the development assistance provided by the EU member states, the Republic of Moldova also benefits from other thematic assistance programmes - in the field of human rights and strengthening of civil society. Additionally, the country receives funds from regional programs under the Eastern Partnership. For example, the EU4Business programme, worth 200 million euros, supports the business environment in the Republic of Moldova, the development of SMEs and access to finance and skills. Moreover, Chisinau participates in EU cross-border cooperation (CBC) programmes, such as the Black Sea Programme, the CBC Romania-Moldova-Ukraine Programme and the INTERREG Programme. EU support is also provided through projects of high-level counselling from EU experts in implementing AA.

The EU also supports the Republic of Moldova through joint investment programmes with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Our country participates in the Partnership for Energy Efficiency and the Environment in the East (E5P), and the EIB also supports the development of the agri-food sector. "Filière-du-vin" and "Fruit Garden Moldova" are two emblematic investment projects, implemented in response to the numerous trade embargos imposed by the Russian Federation.

The European Union has improved its communication and visibility activities in the Republic of Moldova. In 2018, the EEAS adopted the Communication and Visibility Requirements. The EU delegation in Moldova paid special attention to informing about the actions carried out and those implemented in Moldova and intensified the regional and local mobilization activities, targeting local CSOs, local authorities, rural and regional development.

**EU-Moldova cooperation in the field of anti-fraud and control** over the management and implementation of EU funds was strengthened in 2014-2019. The strategic and operational collaboration of the Government of the Republic of Moldova with the relevant European agencies - in particular, the National Anti-Corruption Centre and the European Anti-Fraud Office (OLAF), played a special role in this regard. Following the criminalisation, in the national legislation, of fraud with the involvement of external funds, the NAC carries out strategic and operational analyses, after which, in cooperation with the Anti-corruption Prosecutor's Office, initiates criminal cases that require additional efforts to ensure the finality of the investigations with the criminal prosecution of involved persons. From an institutional point of view, the Republic of Moldova has improved its system of integrity and recovery of criminal assets through the creation of ANI and ARBI. However, additional measures are needed to strengthen the capacity of these authorities to act more decisively and efficiently.

## FINANCIAL ASSISTANCE

### PROGRESS

The Republic of Moldova benefits from a variety of EU assistance instruments, through bilateral and multilateral programmes under the European Neighbourhood Instrument (ENI). The assistance is oriented, in particular, to support the reform of the public administration, the implementation of the AA / DCFTA, agriculture and rural development, energy, transport, the reform of the public finances, the reform of the police, the support of the small and medium-sized enterprises, the development of the civil society and the local authorities.

According to the external assistance management platform, during 2014-2019 the EU committed to provide to the Republic of Moldova over 429 million euros as direct budget support, technical assistance and project support. In addition, EU Member States have provided over 205 million euros through bilateral development programmes. In addition, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) have allocated, over 2014-2019, over 200 million euros to support special investment projects in the field of energy and water supply, sector development, agri-food, waste management and road and rail transport infrastructure. At national level, in 2018, the coordination mechanism for external assistance was strengthened. The Ministry of Finance coordinates the planning and capitalisation of the financial assistance, and the State Chancellery of the Government - the technical assistance programmes. Also, the mechanism of planning, implementation and monitoring of assistance programmes was revised, linked to the national development commitments and the Association Agreement, reflected in the priorities of the new Medium Term Budget Framework (MTBF) for 2019-2021.

The European Union has improved its communication and visibility activities in the Republic of Moldova. In 2018, EEAS adopted the Requirements for Communication and Visibility. The EU delegation in Moldova paid special attention to inform about the actions carried out and implemented in Moldova, and intensified the regional and local mobilisation activities, targeting local CSOs, local authorities, rural and regional development.

### CONSTRAINTS

The main challenge is the full use of EU assistance, provided through budget support programmes and macro-financial assistance. During 2014, the Republic of Moldova received 131 million euros via budget support programmes. At the same time, in mid-2015, the European Commission suspended the allocations for the first time, due to the lack of progress in the investigation of the fraud in the banking system; In 2018, it did so for the second time, as a result of the democratic backslidings found following the cancelled local elections in Chisinau. At the same time, the allocation of the first tranche under the EU Macro-financial Assistance Programme, worth EUR 100 million, was suspended. Moreover, in 2017, the European Commission cancels, for the first time, the last instalments of budget support for the justice sector, as a result of the Government's failure to implement the Reform Strategy for the respective sector. The tightening of the European Union's conditionality was also motivated by the findings and recommendations of the European Court of Auditors' report, published in September 2016. The report in question evaluated the EU assistance during the period 2007-2013 for the reform of the public administration in the Republic of Moldova and targeted four areas of intervention (i.e. justice, public finances, public health and water).

At the end of 2018, due to the lack of progress in the fulfilment of the conditionalities, the European Commission decided to recalibrate the assistance, by redirecting the EU support for the years 2017-2018, in the amount of 106 million euros, to support the civil society, the independence of the media, development of SMEs and for local authorities. With the relaunch of EU-Moldova relations, in July 2019, the European Commission announced the resumption of direct budget support and of the 2018 suspended macro-financial assistance.

### PRIORITIES

1. **Implementation of conditionalities for the use of the budget support programmes** planned in the Single Support Framework granted by the EU for years 2017-2020.
2. **Fulfilment of conditions of the EU programme of macro-financial assistance** of 100 million euros.
3. **Review of medium-term sectoral policy priorities (2019-2021).**
4. **Initiate reflections on the multi-annual planning of EU assistance based on the future Neighbourhood Instrument, development cooperation and international cooperation**, which will be provided by the new EU Multiannual Budgetary Framework for 2021-2027.

## ANTIFRAUD AND CONTROL PROVISIONS

### PROGRESS

The Republic of Moldova has succeeded to essentially improve its legal framework in the field of prevention and fight against fraud with foreign funds. The Criminal Code was amended in 2016 with the inclusion of the criminal sanctions for fraudulent use of the funds offered by the European Union. In addition, in June 2018, came into force the legislative amendments that incriminated the facts of incompatibility, conflicts of interests and restrictions for persons holding public functions, and which related to the negotiation, management and implementation of financial means from internal and external public funds.

EU-Moldova cooperation in the field of anti-fraud has also been strengthened by the conclusion of cooperation agreements between the European Commission and the Government of the Republic of Moldova, as well as directly between the European Anti-Fraud Office (OLAF) and the National Anti-Corruption Centre (NAC), the Customs Service, the Court of Accounts of the Republic of Moldova. As of 2016, the NAC, as the main point of connection with OLAF, ensures the cooperation and exchange of information with the EU institutions on the cases of fraud, corruption or other irregularities detected in the process of implementation of European funds.

The institutional and policy framework in the field of integrity and recovery of criminal assets has been strengthened to support the national anti-fraud and control capacities. In 2016, based on the reorganisation of the National Integrity Commission (NIC), the National Integrity Authority (NIA) was created. In 2017, the Agency for the Recovery of Criminal Assets (ARO) was established. In June 2019, the Parliament of the current legislature created two commissions of inquiry to investigate the circumstances of the "banking fraud" and to verify the legality of privatisation or concession of several state-owned enterprises or state-owned enterprises.

### CONSTRAINTS

NAC jointly with the Anti-Corruption Prosecutor's Office initiated several criminal prosecution cases based on strategic and operational analyses related to the management of programmes supported by EU funds. However, in the reference period, there were no cases of conviction of persons involved in fraudulent management of external funds. In addition, despite the increased interest of the society in investigating these cases and the recovery of assets arising from the criminal activity, the results from NIA and ARO are still to be expected. So far, no cases have been made public in which persons with functions of public dignity have been targeted in final decisions to confirm the breach of the asset declaration or personal interests' rules, with subsequent dismissal from office and seizure of unjustified assets.

Also, there are quite widespread cases of disproportionately large income declarations from family events (weddings, children's baptisms, birthdays), which reach up to the equivalent of 100,000 euros. There are suspicions that these income statements are, in fact, a form of legalisation of the means obtained from acts of corruption or fraud. Although ARO has become active in the seizure of assets, as the criminal cases initiated are still pending, the seized assets have not yet been disposed of, as there are no final decisions on these cases. A challenge in the activity of ARO is the efficient development of parallel financial investigations

### PRIORITIES

1. **Launch by the Court of Accounts of the Republic of Moldova of the audit of the use of EU funds** in cooperation with the European Commission, OLAF and the European Court of Accounts.
2. **Completion of the criminal investigation and trial of the cases relate to the fraud of external funds.**
3. Prompt and effective verification of assets of persons with public dignity functions, in particular, judges and prosecutors, criminal prosecution officers to ensure professional integrity in the justice sector.
4. **Improvement of wealth control mechanisms, including access to data on wealth outside the country, and revision of reporting obligations** - establish the market value of declared assets, establish additional reporting requirements on subjects who have made generous donations to family events, verification of lifestyle of persons subject to control of wealth and personal interests.
5. **Active participation of ARO in the Camden Inter-Agency Debt Recovery Network within EUROPOL (CARIN).**
6. **Strengthening ARO's negotiation capabilities with foreign agencies for return of assets resulting from criminal activity.**





**Address:** București 90 Street, of. 20  
mun. Chișinău, MD-2001  
Republic of Moldova  
**Tel.:** + 373 22 788 989  
**E-mail:** [info@ipre.md](mailto:info@ipre.md)  
**Web:** [www.ipre.md](http://www.ipre.md)



**Address:** Alexandru Bernardazzi 45 Street,  
mun. Chișinău, MD-2012  
Republic of Moldova  
**Tel.:** +373 22 929 994  
**E-mail:** [info@expert-grup.org](mailto:info@expert-grup.org)  
**Web:** [www.expert-grup.org](http://www.expert-grup.org)