

SHADOW REPORT

**EU-MOLDOVA ASSOCIATION AGREEMENT:
6 YEARS OF IMPLEMENTATION
PROGRESS. CONSTRAINTS. PRIORITIES.**

Authors: Iulian GROZA
Iulian RUSU
Stanislav GHILEȚCHI
Mariana PLATON
Victoria NEMERENCO

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The Institute for European Policies and Reforms (IPRE)

București 90 street, of. 20, Chișinău

MD-2001, Republic of Moldova

T: + 373.22.788 989, E: info@ipre.md W: www.ipre.md

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FOREWORD

The Sixth Shadow Report on the implementation of the Association Agreement provides an unbiased view of the developments in the EU-Moldova dialogue, reviewing the main achieved results and recorded constraints, in particular, during 1 September 2019 - 1 September 2020.

The report analyses key areas, which have a spill-over effect, provided for in the five titles of the Agreement, namely: Title II - Political dialogue and reforms, Title III – Justice, Freedom and Security, Title IV - Economic and other sector cooperation, Title V - Trade and Trade-related Matters (DCFTA), Title VI - Financial Assistance, Anti-Fraud and Control Provisions. Based on the findings, the report proposes - as recommendations - a set of updated priorities for the next period, including in the context of the negotiation of the future post-2020 EU-Moldova Association Agenda.

Methodology remarks: This report was prepared by the Institute for European Policies and Reforms (IPRE) following a thorough analysis of the institutional and legal framework, reports on the implementation of the Association Agreement and other national policy documents, published by the Moldovan authorities and European Union institutions. The report proposes an overview of the progress, constraints and priorities for the next period as a result of a qualitative analysis of the degree of fulfilment of commitments in the implementation of the Association Agreement. The draft report was subject to internal and external peer-review, including with the participation of key actors in public authorities and civil society representatives. The draft report was discussed and revised at the validation meeting from October 1st, 2020 with the participation of representatives of national authorities, non-governmental actors and development partners.

EXECUTIVE SUMMARY

During the sixth year of implementation of the Association Agreement (1 September 2019 – 1 September 2020), while summarising the results and constraints identified in the current Shadow Report, there is progress in those areas and sectors of the EU-Moldova Association Agreement, which have been conditioned by the budget support and macro-financial assistance programmes offered by the EU. The EU remains the most important economic partner of the Republic of Moldova, with over 63% of Moldovan exports oriented to the European market and almost 50% of imports that are of EU origin. No tangible progress was attained in the implementation of the values part of the Association Agreement.

At the same time, the EU has diversified the support framework for various actors of change, strengthening dialogue and cooperation with civil society, local authorities, SMEs and local communities. The EU's image among citizens continued to improve. Thus, over 63% of Moldovans say they trust the European Union, according to a recent survey conducted in the Republic of Moldova and other Eastern Partnership countries.

The process of implementation of the Association Agreement has been hampered by the lack of a new national planning document for the year 2020. For the most part, national authorities have focused their efforts on gaining on the 2017-2019 NAPIAA arrears and the priority actions provided for in the 2017 Memorandum of Understanding on EU Macro-Financial Assistance, as well as the eight additional general requirements set by the EU in February 2020. Priorities relevant to the commitments in the Association Agreement were reflected in the Government Action Plan. The COVID-19 pandemic affected the efficiency of the coordination and enforcement process of legislative and implementing measures planned for 2020. At the same time, on 1 July 2020, the Governmental Commission for European Integration approved the Calendar on monitoring the implementation of the backlogs of the 2017-2019 NAPIAA for the period 2020-2023, a Government internal planning document that has not been made public.

The EU-Moldova political dialogue was influenced by internal political developments, the level of achievement of the key reforms' agenda, related to the functioning of democratic institutions, justice and respect for human rights, but also by the COVID-19 pandemic crisis. The negotiation of a new Association Agenda, development of a new Action Plan to implement the Association Agreement and inputs to finalise the new deliverables of the Eastern Partnership post-2020 are the key priorities of the political dialogue, which could also provide opportunities to reset Moldova's European agenda.

Democratic institutions remain fragile and continue to be affected by narrow political and economic interests. We are witnessing insufficient progress in the area of **justice, freedom and security**. The regulatory framework in the field of foreigners and their integration has been completed. The controversial regulations on so-called 'investment citizenship' have been repealed by Parliament. Six years after visa liberalization, 2.3 million citizens travelled to the EU using biometric passports. In the latest report on the application of the visa suspension mechanism, the European Commission considered Chisinau's actions generally positive, but drew attention to the need to reduce unfounded asylum applications from Moldovan citizens. The extension of EUBAM's mandate until 2023 is being negotiated. **The rule of law remains a challenge**, given the controversial initiatives of the SCM, as well as the judges who have been proposed to be appointed to leadership positions at the Court of Appeal and Supreme Court. However, progress has been made in promoting a new strategic planning document in the justice sector. The TI corruption perception index worsened in 2019 compared to 2018. The activity of the General Prosecutor's Office did not provide the expected results on investigating the cases related to the Bank Fraud and "Russian laundromat". The Parliament adopted new regulations on the application of sanctions for money laundering and a draft strategic planning document in this area was drawn up for the next five years.

As in previous years, we are witnessing **moderate progress in the field of EU-Moldova sectoral cooperation**. Although progress has been made in the analysed areas, in some sectors initiatives have been partially implemented or their level of implementation was not as planned. Public administration reform did not make significant progress. The construction of the Ungheni-Chisinau Gas Pipeline (120 km of linear section) was completed. The development of infrastructure, including local roads, remains a key priority, given the current state of road arteries. Household waste continues to be a major challenge for the authorities. The field of regional development made significant progress in adjusting policy documents and changing the sector's approach, from reducing disparities to increasing competitiveness and promoting sustainable development. The help of development partners was crucial in supporting the public health system afloat. The COVID-19 pandemic highlighted the low capacity and weak resilience of the national public health system in the Republic of Moldova. In the future, the approach to the medical system should

be changed and emphasis should be on increasing investment in hospital modernisation. Limited progress was made, and the technical actions implemented have not contributed to increasing media freedom or solving the monopoly in advertising. The new Law on Non-Commercial Organizations was adopted in the final reading, but the dynamics of the relationship between civil society and authorities remain difficult.

There are some developments in the implementation of the **Deep and Comprehensive Free Trade Area with the EU (DCFTA)**. During 2020, Annex no. XV-C of the Association Agreement was updated, thus increasing the tariff quotas for some products (table grapes, plums and fresh cherries). The effects of the pandemic generated by COVID-19, as well as the severe drought faced in 2020 by the Republic of Moldova are key factors that will affect the level of trade with the EU, especially in the case of agricultural products included in the list of goods exposed to the circumvention mechanism. The negotiation, signing and implementation of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) remains yet to be finalised. Although the measures and actions to be implemented to ensure the export products of animal origin (chicken and category B eggs) have been agreed, this right has not yet been obtained. The process of electronic customs clearance of goods has been facilitated and a large infrastructure project is being implemented for the rehabilitation of six customs posts at the Moldovan-Romanian border. Improving governance in the financial sector is one of the areas that will be included in the new programme with the International Monetary Fund. Strengthening the independence of the National Bank of Moldova (NBM) and reforming the non-banking financial sector will be the goals pursued by the authorities by summer 2023. Although both development partners and national experts continue to emphasize the importance of actions to increase the independence of the National Bank, some initiatives of political actors, on the contrary, seeks to diminish it. The activity of the Competition Council focused on areas such as advertising on the audio-visual market and fuel prices. However, the activities planned in the National Strategy in the field of Competition and State Aid have not been reported and evaluated, and another planning document in the field has not yet been prepared. Six years after the entry into force of the Association Agreement, including the Free Trade Area, the EU has initiated the procedure for carrying out the ex-post assessment of the social and economic impact of the implementation of DCFTA.

Cooperation in the field of financial assistance, anti-fraud and control (Title VI) attests to some developments, but also important constraints. The EU remains the main development partner of the Republic of Moldova. Financial assistance was resumed in the second half of 2019, with the EU providing over EUR 53 million in direct budget support and EUR 60 million in macro-financial assistance, consistently applying the principle of strict conditionality. However, the Republic of Moldova missed the last tranche, of EUR 40 million, of the macro-financial assistance due to the non-fulfilment of the outstanding conditions on time. In response to the COVID-19 crisis, the European Commission initiated a reorientation of more than EUR 87 million to address the socio-economic consequences of the pandemic. Another EUR 100 million as anti-crisis macro-financial assistance (Omnibus) will be transferred to the Republic of Moldova by the summer of next year. The first tranche of EUR 50 million is being offered following the ratification, in early September 2020, of the Memorandum of Understanding and the Credit Agreement. The second tranche of EUR 50 million will be disbursed once all six technical conditions agreed with the EU have been met. In addition, under the "Team Europe" approach, the EU has allocated around EUR 140 million in emergency assistance to Eastern Partnership countries, including the Republic of Moldova. Chisinau will also be able to benefit from the EUR 700 million targeted at SMEs, programmed by the EU in partnership with the EIB and the EBRD.

EU-Moldova cooperation in the field of anti-fraud continued on the basis of cooperation agreements between the NAC, the Customs Service and the Court of Auditors with the European Anti-Fraud Office (OLAF). The activity of the National Integrity Authority (NIA) and the Agency for the Recovery of Criminal Assets (ARO) has been strengthened compared to the first half of 2019. However, both NIA and ARO continue to show low efficiency. The biggest challenge in NIA's activity is related to the extended control of the conflict of interests and of the formal assets held by persons affiliated to the subjects of the declaration and to the evaluation of the assets at real market prices. ARO's work also needs to be strengthened through the adoption of a National Strategy on the Effective Recovery of Criminal Assets.

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

CONTEXT

Existing problems in the field of justice and the rule of law, the functioning of democratic institutions and political instability, as well as the COVID-19 pandemic were among the main factors that constrained **the EU-Moldova political dialogue**. The first period was manifested by the re-engagement of EU support and the resumption of external assistance to the Republic of Moldova in support of the pro-reform agenda of the Sandu Government, installed in June 2019. This stage, which can be euphemistically called the "window of opportunity", was a short one. In November 2019, the EU-Moldova relationship was again hit by mistrust, given the way the Government was reset. Under these conditions, in February 2020 the EU activated new requirements to measure the level of political will in implementing key reforms aimed at the rule of law and respect for human rights. However, the COVID-19 pandemic led the EU to adopt an attitude of "strategic pragmatism" towards the Moldovan authorities, an attitude focused primarily on providing emergency assistance in managing the COVID-19 crisis and its negative effects on the socio-economic situation in the country. The EU-Moldova high-level dialogue was more reserved, being largely conducted at the ministerial level.

In the field of **human rights**, the National Council for Human Rights was operationalised. The number of complaints about human rights violations increased during the reference period. Republic of Moldova continues to be frequently convicted at the ECtHR for cases of torture and ill-treatment. No progress has been made in ratifying several international conventions - in particular, Optional Protocol no. 12 to the European Convention on Human Rights. The authorities are to review and develop several national policy documents in the field of human rights, as well as to start the preparations for the next Universal Periodic Review, planned for 2021. A priority, however, remains the implementation of policies at the national level in accordance with the international commitments assumed by the Republic of Moldova.

In the field of **home affairs**, achievements include the resumption of direct EU budget support for police reform and the adoption of a new National Anti-Drug Strategy for 2020-2027. The implementation of the National Strategy for Public Order and Security and the Strategy for Police Development, which expires at the end of 2020, is to be assessed, as well as the development of new post-2020 strategic documents in the targeted areas. The bilateral framework for strategic and operational cooperation with EUROPOL in the field of preventing and fighting money laundering has been strengthened. The main challenge was the emergency management of the COVID-19 pandemic.

Preventing and fighting high-level corruption did not register progress reflected in the conclusion of investigations and sanctioning of all persons involved in "Banking Fraud". At the end of 2019, the Anticorruption Prosecutor's Office was exposed to institutional changes, which slowed down the progress in important criminal cases. The cases involving Ilan Shor have so far been delayed. However, based on the results of the Parliamentary commissions of inquiry, the Anticorruption Prosecutor's Office initiated the criminal investigation into the privatisation of "Air Moldova" SA. In mid-2020, a legislative initiative to create an Anticorruption Court was registered. Although the specialisation of judges has been promoted and is already applied in the courts of the Republic of Moldova, the creation of a specialised Court would significantly affect the efforts to fight corruption, especially at high level.

Cooperation in the field of **foreign and security policy** registers in 2019 an increasing trend of the alignment rate of the Republic of Moldova to EU declarations and decisions (85.7%) compared to 2018 (68%). The Republic of Moldova has to finalise the national mechanism for early warning and response to hybrid security threats. Efforts are needed to enforce the mechanism of implementation of the EU-Moldova Agreement on security procedures for the exchange of classified information. In the next period, the political consultations between Brussels and Chisinau in the field of foreign and security policy ought to be resumed as well as the launch of a structured dialogue on security issues.

In the field of **regional stability**, some developments are registered in the second half of 2019, with consultations being resumed in the format of the permanent conference 5 + 2. Several pandemic crisis management assistance actions have been carried out through the EU Programme to Support Confidence-Building Measures. Respect for fundamental human rights and freedoms in the Transnistrian region remains one of the main challenges. There is a lack of an effective tool for the protection and rehabilitation of victims of human rights violations. The Tiraspol authorities continued to thwart the regulatory process by organising unsanctioned military exercises and installing illegal checkpoints under the guise of COVID-19. Although the meetings of the President of the Republic of Moldova with the leader of the Tiraspol administration were resumed, there are no developments regarding the observance of human rights or the advancement of political negotiations on the 3rd basket. There are several risks of fraud regarding the organisation of the November 2020 presidential elections in the Transnistrian region.

EU-MOLDOVA POLITICAL DIALOGUE

PROGRESS

The EU-Moldova political dialogue progressed mainly in the autumn of 2019, when the Government led by Maia Sandu, appointed on June 8, 2019 by the coalition between the ACUM political bloc and the Party of Socialists of the Republic of Moldova (PSRM), prioritised reform in the justice sector, via the launch the process of integrity evaluation of actors in the justice sector and promoting an agenda focused on overcoming arrears in the implementation of the Association Agreement. This has made it possible to re-engage EU support for the internal reform agenda, including by resuming external assistance. By the end of October 2019, the EU offered the Republic of Moldova three tranches of direct EU budget support, worth about 54 million EUR. After almost two years, two of the three tranches of EU macro-financial assistance for the Republic of Moldova were disbursed, with EUR 60 out of EUR 100 million euros planned to be received.

High-level political dialogue meetings in the institutional evaluation formats of the Association Agreement were held and promoted. Thus, the fifth meeting of the EU-Moldova Association Council (30 September 2019, Brussels), the EU-Moldova Parliamentary Association Committee (18-19 December 2019, Strasbourg), the EU-Moldova Association Committee (18-19 February 2020), the EU-Moldova Association Committee on Trade (January 23, 2020, Chisinau), EU-Moldova Civil Society Platform (February 13, 2020, Chisinau) were held. However, due to the COVID-19 pandemic, several EU-Moldova meetings have been postponed (eg. the EU-Moldova Parliamentary Association Council) or organised online (eg. the EU-Moldova Association Sub-Committee on Justice, Freedom and Security, 24 September 2020). The EU-Moldova dialogue was also promoted during the Eastern Partnership events, dedicated to reflections on the new post-2020 deliverables, by participating online in the Eastern Partnership Ministerial Meeting (11 June 2020) and in the Leaders' Videoconference of Eastern Partnership (18 June 2020).

It is worth noting the end of term visit to Chisinau of the EU High Representative Federica Mogherini (October 3, 2019). Also, the President of the Republic of Moldova paid a visit to Brussels (March 3, 2020). In the second half of 2020, the political dialogue was maintained, in particular, at the level of the Minister of Foreign Affairs and European Integration. Several online discussions were held with the participation of EU Foreign Ministers, the European Commissioner for European Neighbourhood Policy and enlargement negotiations, Oliver Varhelyi (March, April, July 2020), the EU High Representative for Foreign Affairs and Security Policy, Josep Borrell (May 2020). In the context of COVID-19, the dialogue with the EU was focused on strengthening official contacts with European Commissioners in the field of justice and health. Also, on September 9-10, 2020, the first working visit to Brussels of the Minister of Foreign Affairs and European Integration, Oleg Țulea, took place, during which the official from Chisinau met with several European Commissioners and MEPs.

CONSTRAINTS

Issues in the field of justice and the rule of law, those related to the functioning of democratic institutions, political instability and the reset of Government in November 2019, were among the main factors that constrained the EU-Moldova political dialogue in the coming period. The EU reassessed its relationship with the Republic of Moldova, encouraging the Government to continue the reforms initiated in the summer of 2019, consistently applying the principle of strict conditionality. At the EU-Moldova Association Committee in February 2020, the EU identified and forwarded to the Government a list of eight priority short-term reform actions, on the basis of which the European Commission adopted the final decision to transfer the 2nd tranche of EU MFA of 30 mln. EUR.

The COVID-19 pandemic is another constraint that influenced the dynamics of the EU-Moldova dialogue in the second half of 2020. De facto, the pandemic determined the EU to promote a "strategic pragmatism", focused primarily on providing the necessary support to Moldova in crisis management and its negative effects on the socio-economic situation in the country, by providing anti-crisis technical and macro-financial assistance as part of the EU's COVID-19 crisis response approach. During this period, the Chisinau authorities - especially through the MFAEI - managed to maintain and promote a proactive online dialogue with the EU institutions and its Member States. A challenge, however, was to maintain a favourable spirit of political dialogue at the level of the Presidency of the Republic of Moldova, which mainly promoted messages aimed at diminishing the importance of EU support to Chisinau, in contrast to that offered by the Russian Federation and China.

PRIORITIES

1. Negotiation and agreement on a new EU-Moldova Association Agenda
2. Development and adoption of a new Action Plan on the AA implementation for 2021-2023
3. Promoting in dialogue with the EU institutions the proposals for post-2020 deliverables to be approved at the EaP 2021 Summit

HUMAN RIGHTS

PROGRESS

The National Human Rights Council (NHRC) was operationalised, a structure responsible for the monitoring of the implementation of the National Human Rights Action Plan - NHRAP (2018-022). On 11 February 2020 the Regulation of NHRC were approved. The Council is composed of five civil society representatives, delegated by the National Platform of the Eastern Partnership Civil Society Forum. The first meeting of the NHRC was organised online on September 15, 2020. During the meeting the reports on the implementation of the UN Convention on the Rights of Persons with Disabilities and the Recommendations of the UN Committee on the Elimination of Discrimination against Women (CEDAW) were presented. At the beginning of 2020 the Permanent Human Rights Secretariat presented the Report on the implementation of NHRAP. The evaluation document included a summary of achievements for 2018 and 2019 and was publicly consulted with the support of the Office of the UN High Commissioner for Human Rights. Additionally, on July 31, 2020, the Promo-Lex Association published an alternative report on the implementation of priorities no. 2 (National Justice System) and no. 16 (Respect for human rights in the settlements on the left bank of Nistru), provided by NHRAP (evaluation period 2018-2019).

During the reference period, the annual EU-Moldova human rights dialogue meetings were organized (13 November 2019 and 23 September 2020). They included a review of developments in the implementation of human rights commitments, the legal framework and electoral processes, freedom of the media, protection of human rights in the justice sector, observance of children's rights, equality and non-discrimination. Despite an excessive process of politicisation and targeted attacks on civil society organisations by policy makers, the new Law on non-commercial organisations was adopted in final reading.

CONSTRAINTS

The Republic of Moldova continues to be frequently found breaching the ECHR by the European Court of Human Rights (ECtHR) for cases of torture and ill-treatment. In 2019, the ECtHR issued 54 judgments, 36 of which found the Republic of Moldova breaching human rights in 59 cases. Most judgments concern violations of the right to a fair trial, the right to liberty and security, and inhuman and degrading treatment. In 2019, the Government was forced to pay over EUR 537,000 as a result of issued ECtHR decisions.

During the monitored period, no progress was noted in the ratification process of Optional Protocol no. 12 of the ECHR and the Convention on the Protection of all the Rights of Migrant Workers and Members of Their Families. In March 2020, the Government submitted to Parliament the draft law ratifying the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence, which was not adopted until September 2020.

There has been an increase in the number of complaints on non-observance of human rights (2623 in 2019 compared to 2010 in 2018). Most complaints to the National Council for the Prevention of Discrimination and Ensuring Equality concern gender discrimination. Almost ¼ of the number of discrimination cases are related to discrimination on the basis of spoken language.

PRIORITIES

1. Development of a new voluntary report on the Universal Periodic Review in the context of preparation for the next evaluation cycle planned for 2021.
2. Ratification of Optional Protocol no. 12 the European Convention on Human Rights.
3. Ratification of the Convention on the Protection of All Rights of Migrant Workers and Members of Their Families.
4. Ratification of the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence.
5. Review and update post-2020 child protection policy documents. Development of the Action Plan for the implementation of the Strategy for the strengthening of interethnic relations for years 2021-2024.
6. Complete the reform of the People's Advocate (Ombudsman) according to the Paris Principles, by approving amendments to Law 52/2014 and finalisation of the national mechanism for implementing the recommendations of the Council for the Prevention of Torture (CpPT).

HOME AFFAIRS

PROGRESS

In the second half of 2019, the direct EU budget support for the implementation of the Visa Liberalization Action Plan (EUR 4.9 million) and the implementation of police reform (EUR 14.6 million) was resumed. In the second half of 2019, began the implementation of the EU project "Civic Monitoring of Police Reform in the Republic of Moldova", implemented by the Promo-Lex Association. The project ensures the monitoring and alternative evaluation of the activities provided in the Police Development Strategy for years 2016-2020. Also, continued the implementation of the Twinning Project "Reform of the initial and continuous training of the police system in the Republic of Moldova", supported by the EU.

The Government has adopted the National Anti-Drug Strategy for 2020-2027 and its Implementation Plan for 2020-2021. The Road Safety Action Plan for 2020-2021 has also been adopted. By the end of 2020, the implementation of the National Strategy for Public Order and Security for 2017-2020 and the Strategy for Police Development for 2016-2020 is to be reviewed. Preliminary assessments are to be the basis for new post-2020 strategic documents to ensure the achievement of public policy and police development objectives. During the reference period, the Regulation on the organisation and functioning of the General Inspectorate of Police and the General Inspectorate for Emergency Situations was revised and approved. The functional analysis of the General Inspectorate of Carabinieri was performed.

EU-Moldova police cooperation is carried out through the European Police Office (EUROPOL) and, in 2019, was strengthened by signing an amendment to the Agreement on strategic and operational cooperation with this European agency. According to the amendment, ratified by Parliament in June 2020, the areas of crime covered by police cooperation have been updated - in particular those aimed at preventing and fighting money laundering, as well as crimes against the EU's financial interests. In this context, the Service for the Prevention and Fight against Money Laundering has been added to the list of competent authorities of the Republic of Moldova which ensures the exchange of information with EUROPOL. In July 2020, a new EU project implemented by EUROPOL was launched to improve the capacities of Eastern Partnership countries, including the Republic of Moldova, in the field of combating organized crime. In the context of managing the effects of the COVID-19 pandemic crisis, the EU has activated the European Civil Protection Mechanism, in which the Republic of Moldova also participates, benefiting from emergency assistance from EU member states.

CONSTRAINTS

In early 2020, the Government announced the initiative to restore the activity of the sector policemen and police stations in each settlement - an action that does not take into account the objectives undertaken by the authorities in implementing the police reform in the Police Development Strategy for 2016-2020 and, respectively, the Concept on the activity of the community police approved in 2018.

Other issues concern (1) the general capacity gap, including operational and staff turnover in the sector of public order and security; and (2) the fragmented and non-compliant implementation of policy documents related to the field of public security.

The main challenge during 2020 was to address the COVID-19 pandemic emergency management process. The Centre of Exceptional Situations Management (CESM) has been operating on a special basis since 17 March 2020, ensuring coordination with the Regional Exceptional Situations Management Points of the Exceptional Situations Commissions at local and regional level. The General Police Inspectorate (GPI) developed and managed the Interactive Map of persons in self-isolation. However, the measures to prevent and sanction the breaches of the restrictions have been insufficient to reduce the incidence rate at country level.

PRIORITIES

1. Development and approval of post-2020 strategic documents on ensuring public order and security and police development.
2. Implement the Concept on community Police activity.
3. Strengthen the capacities of the police to participate in EU crisis management missions.
4. Include Republic of Moldova in the European multidisciplinary Platform against criminal threats, implemented by EUROPOL (EU Policy - EMPACT).

FIGHTING HIGH LEVEL CORRUPTION

PROGRESS

The General Prosecutor's Office initiated important cases on the name of persons with leading positions in the justice system in connection with illegal financing of certain political parties, as well as applied seizures on goods considered to be of illegal origin. The Agency for the Recovery of Criminal Assets (ARCA) applied, in 2019, seizure of goods worth 2.6 billion MDL. At the end of 2019, the staff of the National Anticorruption Centre (NAC), where ARCA, with the status of General Directorate also operates, was filled with 17 new positions, reserved for it. NAC initiated 640 criminal cases, with a total of 1893 cases in criminal proceedings, including outstanding cases from previous years. Of those initiated against civil servants in 2019, most cases involve police inspectors (45), heads of autonomous institutions within the authorities (28), directors and deputy directors of state-owned enterprises (18) and mayors and deputy mayors (11).

The Anticorruption Prosecutor's Office initiated the criminal investigation into the privatisation of Air Moldova SA, received 552 notifications on allegations of crimes and sent files to the courts, on which the criminal investigation was carried out directly by prosecutors, targeting five judges, four prosecutors, eight lawyers, 23 employees of the Ministry of Interior and 11 of the Customs Service. In 2020, the General Prosecutor's Office made progress on the criminal investigation with the involvement of "Metalferos" SA, and in the public more information was leaked on the schemes used within this enterprise.

CONSTRAINTS

The Anti-Corruption Prosecutor's Office underwent institutional changes at the end of 2019, which significantly slowed down the progress on investigating the cases known as "Russian laundromat" and "the Banking fraud". The change of leadership of the Anticorruption Prosecutor's Office was considered politically motivated, after the new Prosecutor General was appointed based on a competition classified as non-transparent and which was the basis for the vote of no confidence to the Sandu Government.

Numerous public data related to the lifestyle of President Igor Dodon was used to file a criminal complaint with the General Prosecutor's Office. However, contrary to the provisions of the Code of Criminal Procedure, it redirected the respective denunciations to be analysed by the National Integrity Authority and not examined in procedure based on article 274 of the Code of Criminal Procedure. Likewise, despite some information, made public, on the illegal financing of PSRM, the criminal case was not initiated by the Anticorruption Prosecutors. The public denunciations made by some judges have finally led to the termination of the criminal proceedings against the judges with leading positions within the court system, and others are so far without any meaningful result.

The emblematic cases related to the Banking fraud, with the involvement of Ilan Shor, are so far delayed and there is no finality on the two criminal cases initiated in 2015 - one is at the stage of criminal prosecution and another at the stage of review of appeal by the Cahul Court of Appeal. The examination of the financial expertise, which is considered essential in establishing the guilt on one of the important episodes of the "banking fraud", has been delayed for over a year. The case of money laundering with the involvement of Veaceslav Platon is still at the pre-trial stage, several years after its start. In mid-2020, a legislative initiative to create an Anticorruption Court was registered. Although the specialisation of judges has been promoted and is already applied in the courts of the Republic of Moldova, the creation of a specialised Court would significantly diminish the efforts to fight corruption, especially at high level.

PRIORITIES

1. Thorough planning and implementation, with the help of development partners, of the extraordinary evaluation of judges, prosecutors and other actors in the justice sector, to allow the involvement of honest people in the criminal prosecution process and the trial of corruption cases involving the highest public officials.
2. Effective implementation of confiscation instruments on high profile cases to society (banking fraud, "Russian laundromat", privatisation of state property, illegal schemes in state-owned enterprises such as "Metalferos" SA).
3. Empowering the Anti-Corruption Prosecutor's Office with sufficient staff to be able to cope with the heavy workloads related to the investigation and referral of justice on high profile cases.

FOREIGN AND SECURITY POLICY

PROGRESS

Cooperation in the field of foreign and security policy was one of the key components addressed in the EU-Moldova dialogue and the regional dimension of the Eastern Partnership at the Security, Common Security and Defence Policy (CSDP) Panel in November 2019. During the reference period, several summit meetings were held with the EU High Representative for Foreign Affairs and Security Policy. Increasing cooperation on strengthening the resilience of cybersecurity is, along with improving strategic communication, major priorities of the Republic of Moldova.

Republic of Moldova continues to align to most EU statements and EU Council Decisions on international restrictive measures of the European Union, in accordance with the procedures established in [Law 25/2016](#). During the reference period, there was an increasing trend in the rate of alignment of the Republic of Moldova with EU declarations compared to 2018. Thus, in 2019, the Republic of Moldova aligned to 66 of 77 EU declarations and EU Council decisions (85.7%), compared to 46 out of 68 (68%) in 2018. By mid-September 2020, the alignment rate to EU declarations was 88%. The Republic of Moldova chooses not to align itself with EU statements and decisions targeting the Russian Federation, China (Hong Kong) and Belarus.

The Republic of Moldova also contributes, via its participation, to EU crisis management missions. In this context, during 2019, two representatives of the National Army (doctor and instructor on artillery tactics) were seconded to the EU Military Training Mission in Mali (EUTM Mali). In the first half of 2020, however, one of the delegated experts was withdrawn from the mission in connection with the COVID-19 pandemic.

CONSTRAINTS

Republic of Moldova and the region generally continues to be exposed to hybrid challenges and threats to security, generated by the war in Eastern Ukraine with the involvement of the Russian Federation. The information space remains severely affected by disinformation actions promoted especially by the Kremlin, especially during the COVID-19 pandemic. These misinformation activities have been identified and uncovered in detail by StratCom East within the European External Action Service (EEAS East StratCom Task Force).

Assessing and fighting hybrid threats remains one of the priorities of the EU-Moldova security dialogue. However, during the reference period there were no developments related to the institutional and legal framework to strengthen the resilience capacities, based on the analysis of hybrid risks and threats to the Republic of Moldova, conducted by the EEAS and the European Commission. However, a draft methodology on identifying and fighting hybrid attacks was developed during 2019, whilst in mid-2020, the EU-Moldova consultations on the development and implementation of a national hybrid threats warning and response mechanism were resumed.

Although some measures have been taken at national level during the reference period, efforts are still needed, in cooperation with the relevant EU institutions, to implement the arrangements for the operationalisation of the Republic of Moldova - European Union Agreement on security procedures for on exchange of classified information.

PRIORITIES

1. Resumption of EU-Moldova staff-to-staff political consultations in the field of foreign and security policy
2. Launch the structured EU-Moldova security dialogue
3. Promote, in dialogue with the EU, an Eastern Partnership Security Pact, combining assistance funds, expertise and support for capacity building in the field of security.
4. Cooperation of national authorities with the EU, as well as with independent experts in the process of conclusion of the Early Warning and Early Response (ATRT) methodology to hybrid threats.
5. Implementation of the mechanism for the EU-Moldova Agreement on security procedures for the exchange of classified information.

REGIONAL STABILITY

PROGRESS

Consultations were resumed in the format of the 5 + 2 standing conference (9-10 October 2019), including on the promotion of confidence-building measures in the format of the Bavarian conferences (4-5 November 2019). The agenda of the meetings focused on assessing the implementation process of the Berlin + Package and identifying key priorities in this file, reflected in the new Declaration on Negotiations in the Transnistrian Settlement Process in the "5 + 2" Format, adopted by the Council of Foreign Ministers of the OSCE (5-6 December 2019). There were only five meetings at the level of political representatives (2018-30) and 35 meetings of the sectoral working groups (2018-89). In addition, two meetings of the Governmental Commission for Reintegration (December 2019 and August 2020) were convened to assess the country's reintegration process. In order to synchronize the national positions regarding the negotiation process, in 2019 the activity of the Coordination Mechanism on the Transnistrian issue was resumed.

In accordance with the Programme of activities for the reintegration of the country, 35 projects (2019) were carried out during the reference period. Additionally, by the end of 2020, another 42 projects have been approved. On July 1, 2020, 338,244 persons resident in the Transnistrian region were registered in the State Register of Population, of which 329,151 are citizens of the Republic of Moldova (272,780 hold identity cards and 304,060 - passports of citizens of the Republic of Moldova). During the same period, 529 enterprises with their permanent headquarters in the Transnistrian region and 1,646 economic agents provisionally based in the eastern districts of the country were permanently registered in the State Register of Legal Entities. There has been some progress, in particular, in the work of schools with Latin script teaching; 90% unblocking of access to agricultural land in Dubasari district; apostille of neutral model study diplomas; the exclusion, between September 16, 2019 - March 17, 2020, of the mechanism of prior written notification for private travel in the Transnistrian region of officials and civil servants from the Republic of Moldova. Similarly, through the EU Programme to Support Confidence-Building Measures, several assistance actions have been carried out in connection with the epidemiological situation, following the spread of the COVID-19 pandemic.

CONSTRAINTS

Observance of fundamental human rights and freedoms in the Transnistrian region remains one of the main challenges. There is a lack of an effective tool for the protection and rehabilitation of victims of human rights violations. The list of people responsible for human rights violations in the Transnistrian region has been made public. The Tiraspol authorities continued to thwart the resolution process by stepping up, testing and training of military capabilities, including in the security zone, in breach of the 1992 Agreement. Using the anti-Covid-19 measures, the free movement was restricted for several categories of citizens (i.e. doctors, prosecutors, judges, customs officers, teachers, landowners). Moreover, 37 fixed and mobile checkpoints were illegally installed around the settlements under the jurisdiction of the Constitutional authorities. By August 2020, only 15 mobile stations have been eliminated, and four access roads remain blocked and continue to impede free movement. The Government has repeatedly called for the involvement of the OSCE Mission to Moldova to identify violations and influence their remediation. As of September 9, 2020, according to data from the OSCE Mission to Moldova, there are still 12 illegal posts.

There is still a lack of an inclusive and transparent process to promote a strategic vision at the national level for the reintegration and resolution of the Transnistrian conflict. Although the meetings of the President of the Republic of Moldova with the leader of the Tiraspol administration were resumed (two meetings took place during the reference period), there are no developments on the observance of human rights or the advancement of political negotiations on the 3rd basket. In addition, there are several risks of fraud regarding the organisation of the November 2020 presidential elections in the Transnistrian region.

PRIORITIES

1. Strengthening the role of the OSCE Mission to the Republic of Moldova in monitoring and discouraging unilateral actions that thwart the negotiation process, confidence-building measures and violations of human rights and freedoms in the Transnistrian region.
2. Convene the permanent conference in the 5 + 2 format to resolve the problems related to the unilateral actions from Tiraspol, also applied as a justification of management of COVID-19 pandemic.
3. Discourage non-transparent agreements reached between the political authorities in Chisinau and Tiraspol on the Transnistrian conflict settlement process, facilitated by a mediator, outside of the 5 + 2 negotiation format.
4. Monitoring, prevention and sanctioning of fraud in the November 2020 presidential elections in the Transnistrian region.

2. TITLE III – FREEDOM, SECURITY AND JUSTICE

CONTEXT

In general, draft policy documents, including planning, were adopted in the analysed sectors, as well as constitutional changes to strengthen the justice sector. However, the practical way of implementing public policies, but also of the related normative framework suffers in some places from low quality, including because of the political influence.

The regulatory framework for **aliens and their integration** has been complemented, including in the context of simplifying the residence permit issuance for citizens of EU Member States which is facilitating investment. The controversial regulations related to the so-called "**citizenship through investment**" were annulled by the Parliament, only the applications submitted up to that stage being still reviewed. At the same time, on the case of Turkish teachers illegally expelled from the Republic of Moldova, the sentence was classified, whilst the sources from which the former director of SIS paid the compensations established by the ECtHR are unclear.

In the latest report on the application of the visa suspension mechanism, the Commission generally appreciated Chisinau's actions as positive, but drew attention to the need to reduce unfounded asylum applications from Moldovan citizens.

Moderate progress is acknowledged in the area of **personal data protection**. The NCPPD has registered a higher number of complaints on breach of national regulations and faces insufficient staff to cover the sectors under its competence. New regulations related to the NCPPD and the protection of personal data, including in the field of video recording equipment, have not been approved by the Parliament.

The **border management** activity was ensured through joint patrols on the perimeter of the Moldovan-Romanian and Moldovan-Ukrainian borders. At the same time, border crossings were equipped to meet the challenges of the pandemic generated by COVID-19, with support provided by development partners. Illegal trafficking in goods, including cigarettes, drugs and weapons increased compared to previous years, indicating increased vulnerabilities in the effective management of the state border. No other joint checkpoints have been launched on the Transnistrian segment of the Moldovan-Ukrainian border. The extension of EUBAM's mandate until 2023 is being negotiated.

The **rule of law remains a challenge** given the controversial initiatives on the functioning of the SCM, but also with respect to judges who have been proposed to be appointed to leadership positions at the Court of Appeal and the Supreme Court of Justice. However, progress has been made in promoting changes to the **Constitution** related to the independence of the judiciary and judges, and in promoting a **new strategic planning document in the justice sector**. The mechanism of verification of integrity of actors in the justice sector does not offer the expected results, requiring much broader interventions to exclude participants who do not show integrity and are involved in various cases of suspicion of illicit enrichment. The criminal cases initiated as a result of the denunciations in the summer of 2019 were either not finalised or have been closed.

Transparency International's corruption perception index worsened in 2019 compared to 2018. The activity of the General Prosecutor's Office did not provide the expected results on investigating the cases related to "Banking fraud" and the "Russian laundromat", although some progress was made on "Metalferos" S.A. investigations. The corruption cases managed by NAC and the Anticorruption Prosecutor's Office mainly targeted employees in the field of internal affairs, customs and attorneys. There were no cases involving persons with positions of public office, although the General Prosecutor's Office was notified of situations of illegal financing of political parties, suspicion of illicit enrichment and lifestyle that does not correspond to the official legal income of several high-ranking state public officials.

The field of **anti-money laundering** has made little progress. New regulations have been adopted on the application of sanctions for acts of money laundering and the draft strategic planning document has been drafted for the next five years, whilst the CPFAML has intensified its analysis, including of financial investigation. However, controversial bills have been promoted in Parliament on the application of the term of "beneficial owner" and no regulations were adopted that would restrict entry into transactions with the public sector for entities from offshore jurisdictions, as well as ensuring the protection of essential infrastructure, although such initiatives have been registered in Parliament.

MIGRATION AND ASYLUM

PROGRESS

The Government approved the Action Plan on the integration of foreigners in the Republic of Moldova for 2020. The document provides mostly implementation activities, directly related to the process of integration of foreigners, including offering Romanian language courses, facilitating the recognition of diplomas, ensuring registration and access to social assistance, involvement of civil society organisations to facilitate the process of integration of foreigners and promoting the culture of tolerance towards foreigners in the Republic of Moldova. In June 2020, Parliament approved amendments to the Citizenship Law, the Law on Investments in Entrepreneurship and the Law on Aliens, thus repealing the amendments adopted in 2016 related to the so-called "citizenship through investment". As a result, as of September 1, 2020, it will no longer be possible to accept applications for citizenship through investment, those submitted until the adoption of these changes will be reviewed as established by the Government.

In July 2020, the Parliament also adopted significant amendments to Law no. 274/2011 on the integration of foreigners in the Republic of Moldova, the law being voted in a new reading, with entry into force on January 1, 2021. The law partially transposes the provisions of Directive 2011/95/EU and is part of Moldova's commitments to the EU, set out in the Plan of actions for the implementation of the Association Agreement between the Republic of Moldova and the EU for the years 2017-2019 and in the EU-Moldova Association Agenda for the years 2017-2019. Six years after the liberalisation of the visa regime, 2.3 million citizens travelled to the EU on the basis of biometric passports, with over 8.5 million crossings when leaving the country. Thus, over 70% of the citizens of the Republic of Moldova have travelled to the EU at least three times in the last six years. The new Commission's report on the application of the visa suspension mechanism has been published. The Commission considers the readmission mechanism to be functional and needs to be continued but recommends that action be taken to prevent unfounded asylum claims. The number of asylum seekers decreased in the first eight months of 2020 compared to the same period in 2019, from a total of 3850 in 2019 to 2445 in 2020. This decrease is also due to the restrictions imposed by the COVID-19 pandemic, but also by seasonal fluctuations, which show a higher number of asylum seekers in the cold months of the year.

CONSTRAINTS

The benefits of the visa liberalisation regime with the EU have been significantly overshadowed by the pandemic. Exit from the territory of the Republic of Moldova was significantly restricted after the establishment of the state of emergency in public health by the EU member states, but also by the Republic of Moldova. The EU Council approved the updated list of safe states and the criteria for determining them, i.e. the states whose citizens can enter the territory of the EU without restrictions. The large number of infections reported daily, which exceeds the limits set by the EU Council Recommendation, does not allow the citizens of the Republic of Moldova to currently travel without restrictions to the European Union.

The controversial case of expulsion of Turkish teachers was finalised at the court of first instance stage. The sentence concerned only the former director of the SIS, to whom a sentence with suspension was applied. Moreover, the court decision on this case was fully classified, and from the data that became public through the General Prosecutor's Office, it became known that the former director of SIS paid in full the moral damage caused to the injured parties, amounting to 125 thousand euros. The secrecy of this case has been harshly criticised by the public for the way the process has been managed. The conviction was challenged on appeal by one of the injured parties. The case comes a year after the ECtHR decision where the Republic of Moldova was found to have breached Articles 5 and 8 of the ECHR.

PRIORITIES

1. Adjusting the procedures for the integration of foreigners in the Republic of Moldova to the realities generated by the COVID-19 pandemic, including the tools provided in the Action Plan on the integration of foreigners for 2020, using remote information communication technologies.
2. Implementation of the migration and asylum Action Plan for the years 2016-2020 and evaluation of the results of the Strategy for 2011-2020, with the development of a new strategic planning document.
3. Implementation of the Law no. 274/2011 on the integration of foreigners in the Republic of Moldova.
4. Impact assessment of the amendments operated in Law no. 200/2010 on the status of foreigners, in particular for the categories of foreigners coming from EU Member States to assess the facilitation of the movement of foreigners for business purposes and the use of DCFTA benefits.
5. Effective implementation of prevention measures to reduce the number of cases of COVID-19 infection to allow the return to unrestricted movement of citizens of the Republic of Moldova on EU territory.

PERSONAL DATA PROTECTION

PROGRESS

The Parliament approved some amendments to the Law on Personal Data Protection, which entered into force in August 2020. The amendments provide an additional deadline for the National Centre for Personal Data Protection (NCPDP) to review the complaints and challenges to the Centre's decisions.

The NCPDP initiated public consultations on the draft Decision on the establishment of cases of personal data processing where no notification is required. The approach proposed in that draft is to establish a list of cases where notification is mandatory, excluding the notification obligation for cases not mentioned.

Overall, the NCPDP has strengthened its petition review activities by area of competence compared to last year. Their number reached 743 in 2019. Also, the NCPDP appeared in 105 lawsuits in courts, which indicates an increase of 45% compared to 2018, when 69 lawsuits were registered with the participation of the NCPDP.

CONSTRAINTS

The draft laws no. 421/2018 NCPDP and no. 422/2018 on personal data protection, which transpose the provisions of EU Regulation 2016/679 and Directive 2016/680, were not approved by Parliament in second reading. Also, the draft Law on the status of video media, after additional consultations with the actors involved, was not promoted and approved by the Parliament.

Judicial anonymisation practices are still flawed and do not provide a clear distinction between cases where fundamental rights such as freedom of privacy and cases of high public interest prevail, where information on public persons who have been brought to justice is either excluded or presented briefly. The SCM has not revised its mechanism of anonymisation of court decisions, which entails a number of image risks for the authorities involved in the administration of justice with respect to persons who have held public office.

The cases examined with the participation of the NCPDP as a defendant also indicate, in some places, a delay in courts trails, which ultimately leads to the expiration of the statute of limitations to enforce the misdemeanour liability.

The Strategy and Action Plan in the field of personal data protection has not been evaluated and a new strategic long-term planning document in the analysed field has not been developed.

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 its results.
2. Promote the Law on personal data protection, transposing EU Regulation 2016/679 and EU Directive 2016/680, taking into account the onerous impact it may have and establishing a sufficient transitional period for adjustment.
3. Promote the Law on the NCPDP and the Law on the status of video media to strengthen the institutional position of the NCPDP, in compliance with the already existing institutional framework related to the administration of justice and the management of public information resources.
4. Review the publication of judgments in the spirit of the best practices of the Court of Justice of the European Union and the European Court of Human Rights, which should be adjusted to the national context and interest, especially in relation to high profile cases involving individuals holding public office.
5. Promote information campaigns - including in schools, medical institutions, the business sector - on the importance of personal data protection and its processing in cases with strict regulatory framework

BORDER MANAGEMENT

PROGRESS

The activity of the Border Police was determined by the implementation of the National Strategy for integrated state border management for the period 2018-2023. A new Action Plan for the implementation of the strategy for 2021-2023 is to be approved by the end of 2020.

The EUBAM mission continued to assist the Border Police and Customs Service in implementing the integrated border management and in strengthening and extending the joint control of the Moldovan-Ukrainian border. The current mandate of the Mission expires on 30 November 2020. On 31 July 2020, the Government of the Republic of Moldova approved the start of negotiations with the European Commission and the Government of Ukraine to extend the mandate of EUBAM until 30 November 2023. Cooperation with the EU agency FRONTEX continued according to the Cooperation Plan for 2018-2020. A new cooperation plan for 2021-2023 is to be negotiated.

The border management activity has been strengthened. During 2019, 311 coordinated patrols and 449 joint patrols of the Moldovan-Romanian border were organized, as well as 1920 joint patrols of the Moldovan-Ukrainian border, including 243 patrols were carried out on its central segment. During 2020, the cooperation between the border institutions of the Republic of Moldova and Romania was strengthened, based on the Plan agreed in October 2019. With the support of the European Union and the support of the EUBAM Mission, the operationalisation of the common border control point of Moldova -Ukraine - "Palanca-Maiaki-Udobnoe" was supported. As a result, in September 2019 the joint contact point Palanca was launched, which facilitates the exchange of data between the border authorities of the Republic of Moldova and those of Ukraine on the flow of people and vehicles. In 2020 coordination activities between the Moldovan and Ukrainian authorities continued to initiate full joint control at the Cuciurgan-Pervomaik and Giurgiulesti-Reni border crossing points, facilitated by EUBAM. With the support of the EU, the process of re-equipping and modernising these crossing points is taking place, planned to be completed in the second half of 2020. The implementation of the mechanism of prior coordination and data exchange for the smooth flow of cross-border traffic has been initiated.

CONSTRAINTS

During the reference period, no progress was made in the process of expanding the full joint control of the Moldovan-Ukrainian border, including on the Transnistrian segment.

In the context of the COVID-19 pandemic, the activity of the Border Police was reviewed. During the state of emergency, the Republic of Moldova established restrictions on crossing the border, which are regularly updated based on the developments of the epidemiological situation at international and national level. The European Union has provided, through technical assistance projects, including with the support of the EUBAM Mission, support in equipping border crossing points with equipment necessary for the protection, prevention and control of the spread of the epidemic.

Illegal trafficking in tobacco and alcohol products remains one of the main challenges related to cross-border crime. In 2019, more than 191 thousand packs of cigarettes were seized at the state border in 136 cases, which represents an increase of 24%, compared to the same period in 2018. In 2019, three cases of illicit trafficking in alcohol and alcohol products were registered, with 125 liters of alcohol and alcohol products being detected. Moreover, there is a 41% increase in cases of illicit arms and ammunition trafficking - 48 cases in 2019, with 3274 items detected, mainly on the Moldovan-Ukrainian segment of the border. Several cases of smuggling have been detected in joint operations implemented in cooperation with the Romanian and Ukrainian authorities, with the support of EUBAM, EUROPOL, OLAF and FRONTEX.

PRIORITIES

1. Development and approval of the Action Plan for the years 2021-2023 on the implementation of the National Strategy for integrated state border management for 2018-2023.
2. Extension of the mandate of the EUBAM Mission until 23 November 2023.
3. Agreement on a new Cooperation Action Plan between the Border Police and the European Agency FRONTEX for the years 2021-2023.
4. Extension of common control at Moldovan-Ukrainian crossing points, including on the transnistrian segment. Launch of full control at the border crossing points of Cuciurgan-Pervomaik and Giurgiulești-Reni.
5. Strengthen cooperation between the authorities of the Republic of Moldova and the EU Member States, as well as the associated countries in fighting and prosecuting cross-border crime (i.e. smuggling of tobacco and alcohol products)

RULE OF LAW

PROGRESS

The Ministry of Justice has initiated the consultation process on the draft of the new Strategy for ensuring the independence and integrity of the Justice sector for the years 2021-2024, as well as the Action Plan for the years 2021-2024. The Strategy and Action Plan have undergone an extensive public consultation process, involving justice actors, civil society organizations, justice professionals and development partners. At the moment, the draft Strategy and the Action Plan are at the stage of preliminary evaluation of implementation costs and approval by public authorities.

In 2019, the amendment of the Constitution of the Republic of Moldova was initiated, aimed to strengthen the independence of the judiciary and judges. The draft has been adjusted following consultations with Council of Europe experts, but also to ensure that it complies with the recommendations of the Venice Commission. The amendments to the Constitution were approved by the Government and sent to the Constitutional Court for an opinion. The constitutional amendments provided for the appointment of judges until retirement without an initial term of five years, established a number of 12 members in the SCM, of which six judges and six persons with a high professional reputation, excluded the appointment of SCJ judges by Parliament and provided for transitional norms on the mandate of the current members of the SCM, appointed by Parliament in March 2020. Meanwhile, on 22 September 2020, the Constitutional Court returned the bill to the Government, citing procedural flaws. Additionally, the Court also commented on the content of the draft, some of its contents being considered as not complying to the Constitution. The Government approved a new draft law amending the Constitution but it contains largely the same provisions, partially adjusted as a result of additional consultations with the ad hoc group of the Council of Europe from 28-29 September 2020.

In the context of COVID-19, the courts were equipped with means to facilitate the taking place of court hearings in remote video conference mode, ensuring the procedural rights of the parties.

CONSTRAINTS

The manner of election and appointment of the Prosecutor General was overshadowed by suspicions of influenced score offered to candidates, the subject of the appointment of the Prosecutor General being also the reason for assuming responsibility by the Sandu Government, which ultimately resulted in the Parliament approving the vote of no confidence. The amendments to Law no. 3/2016 on the Prosecutor's Office, which relate to the organisation of the competition for the position of Prosecutor General, as well as his/her dismissal, were declared partially unconstitutional by the Constitutional Court. Under these conditions, the procedure that was followed in the process of appointing the Prosecutor General does not correspond to the requirements of the Constitution but does not have a retroactive effect to the current holder of this position.

In December 2019, the Parliament approved amendments to Law no. 947/1996 on the Superior Council of Magistracy, via which it changed the composition of the SCM. These amendments were made in the context in which the President of the Venice Commission was visiting the Republic of Moldova to discuss initiatives to amend the Constitution. The reactions of the European high representative were of confusion, given the rapid approval of the amendments to the Law 947/1996, in the context in which the Government had initiated the process of amending the Constitution. Consequently, in March 2020, the Parliament appointed four members of the SCM from among the professors of law, without the process being transparent and contrary to the recommendations of the Venice Commission.

The changes made by the Parliament to Law no. 947/1996 but also to Law no. 193/2019 on filling the vacant position of judge among the substitute judges breached the principles of representativeness of judges from district courts, the alternate member later taking over the position of interim president of the SCM. On the 22nd of September 2020 the interim chairman of the SCM resigned from both the position of member of the SCM and chairman, motivating his resignation with the Constitutional Court review of the amendments made to Law no. 193/2019. The SCM proposed controversial judges for leadership positions in the Chisinau Court of Appeal and the Supreme Court of Justice, which, in addition to affecting the image of justice in the Republic of Moldova, also confirms that the instrument of verification of integrity of judges at various stages in their career is not effectively applied.

PRIORITIES

1. Approval of the Strategy ensuring the independence and integrity of the justice sector for years 2021-2024.
2. Adjustment and promotion of the draft law amending the Constitution on the independence of the judiciary in accordance with the opinion of the Constitutional Court of 22 September 2020 and the recommendations of the Venice Commission.
3. Development and implementation of the mechanism for extraordinary evaluation of judges, prosecutors and other actors in the justice sector.
4. Completion of criminal cases against persons involved in "Russian laundromat" and the "banking fraud".
5. Extend the requirements of verification of integrity for both the candidates for positions in the justice sector as well as for at all stages of their career.
6. Strengthen the role of the Judicial Inspection and Prosecutors' Inspection to adequately sanction abuses.

PREVENTION AND FIGHT AGAINST CORRUPTION

PROGRESS

The implementation of the National Integrity and Anticorruption Strategy (NIAS) for years 2017-2020 continued. For 2019, NIAS was achieved at 48%. Out of the total of 124 actions, 59 were implemented, 17 are in the process of implementation, 43 were partially implemented and five were not implemented.

In the field of anti-corruption expertise, in 2019 NAC presented 121 reports of anti-corruption expertise, out of a total number of 317 draft normative acts entered in the legislative procedure in Parliament.

During 2019, NAC started 640 cases, 546 of which were of corruption and related crimes, 18 - economic and financial crimes and 76 - other categories. The criminal investigation officers within the NAC completed the criminal investigation on 596 criminal cases, of which 267 were sent to court.

The Anticorruption Prosecutor's Office started the criminal investigation on 353 cases out of 552 complaints reviewed by the prosecutors. On the crimes directly related to corruption (art. 324, 325, 326, 333 and 334 of the Criminal Code) the criminal investigation was started on 124 cases, and there were another 81 cases were already under criminal investigation.

There is a higher number of civil servants in the field of Internal Affairs (23 people), of the Customs Service (11 people) and lawyers (8), against whom criminal cases have been sent to court for acts of corruption and those assimilated to acts of corruption.

In the case of smuggling of anabolic substances via the SOE "Poșta Moldovei", a former employee of this company, who revealed the trafficking scheme, was acquitted in mid-2020. It happened after he was convicted, following his public disclosures of the scheme, then repeatedly acquitted by the courts.

CONSTRAINTS

During 2019 and 2020 the General Prosecutor's Office received several notifications and criminal complaints, which resulted in the issuance of decisions not to start the criminal investigation. Flagship cases related to civil servants with leadership or elective positions have been reported. These include cases of illegal financing of political parties, corruption of MPs and even the abduction of a Member of Parliament. On these important cases for the society, the General Prosecutor's Office issued non-initiation orders due to absence of crime components.

The leadership of the Anticorruption Prosecutor's Office was changed in dubious conditions at the end of 2019, thus breaching the Law on specialised prosecutors' offices, but also erroneously applying the provisions of the Administrative Code related to the term of interested party in the case of the suspended Chief Prosecutor of the Anticorruption Prosecutor's Office. At the same time, journalistic investigations were published, which analyse a criminal case of corruption in very large proportions, where one of the Deputy Prosecutors-General is suspected of being involved.

The corruption perception index in the Republic of Moldova, according to Transparency International data, worsened in 2019, reaching the level of 32, compared to 33 in 2018. The Republic of Moldova ranked 120th, between Sierra Leone and Nigeria.

Corruption cases are still the responsibility of NAC and the Anti-Corruption Prosecutor's Office. Large number of cases does not allow the staff of the NAC and the Anti-Corruption Prosecutor's Office to focus on corruption cases that are important to society, such as "banking fraud" or the "Russian laundromat".

PRIORITIES

1. Efficient use of financial assets management tools without the involvement of cash.
2. Implementation of transparency instruments in the management of public funds to prevent corruption cases, in particular, with the involvement of the local public administration.
3. Review the functional responsibilities of the NAC and the Anti-Corruption Prosecutor's Office, with focus on cases of particular importance to society and transfer of the management of corruption cases with a lower impact for society to the regional prosecutor's offices and regional offices of NAC.
4. Assess the impact of the activities implemented within NIAS and the development of a new strategic planning document in the integrity and anti-corruption sector.

FIGHT AGAINST MONEY LAUNDERING AND FINANCING OF TERRORISM

PROGRESS

The Law no. 75/2020 on the procedure of finding breaches in the field of money laundering prevention and terrorist financing and the application sanctions was approved. The law complements the provisions of Law no. 308/2017 on the prevention and fight against money laundering and terrorism financing, and ensures the transposition of Directive 2015/849.

In early September 2020, the Government approved the draft Strategy on Prevention and Fight against Money Laundering and Terrorism Financing for 2020-2025 and the Action Plan for its implementation. The draft Strategy is under consideration in Parliament.

The Parliament ratified in June 2020 an amendment to the Agreement on Operational and Strategic Cooperation between the Republic of Moldova and the European Police Office of 18 December 2014, signed in The Hague on 10 October 2019, according to which the Centre of Prevention and Fight against Money Laundering (CPFAML) has been included in the list of competent authorities and national contact entities.

The fifth round of MONEYVAL evaluation, which took place during 2018 and 2019, made public the evaluation report. The document points to several progresses, including the strengthening of the CPFAML, the preparation of financial investigation reports and analytical notes that are partially used by criminal prosecution bodies, the approval of the strategic policy framework aimed at recovering goods resulting from criminal activities of money laundering and related actions.

During 2019, the CPFAML performed 95 monitoring analysis, presented 228 analytical notes and prepared 100 financial investigation reports. The CPFAML received 21 thousand notifications of suspicious transactions from banks in 2019, compared to over 1,5 million in 2018, which is a significant improvement in the quality of information received and corresponding to the new requirements of notification of suspicious transactions by banking financial institutions. At the same time, other actors involved in notifying suspicious transactions (notaries, microfinance organisations) reported over 51 thousand transactions, of which suspicious - about 4 thousand. Based on the precautionary measures applied by CPFAML, 118 million lei, 1.2 million euros and 1.9 million USD were seized, coming from activities alleged to be related to bank fraud and "Russian laundromat".

CONSTRAINTS

The national policy framework has not been supplemented by regulations limiting transactions between the public sector and entities originating from jurisdictions that do not implement international transparency standards (offshore jurisdictions), as well as protecting national strategic infrastructure from takeovers by non-transparent or compromised foreign entities. This is despite the fact that a legislative initiative has been launched to restrict offshores and protect essential infrastructure.

A controversial legislative initiative that could have serious consequences for the prevention and fight against money laundering, as well as for the recovery of assets resulting from criminal activity, including the bank fraud and the "Russian laundromat", was swiftly approved by the Government and Parliament in first reading, on July 20, 2020. The draft was criticised by experts for non-compliance with the procedure, but also for formulating provisions which are disproportionate with the purpose. Among the side effects of this legislative initiative, if it is finally approved, is the cancellation of the entire system of recovery of assets resulting from criminal activity.

PRIORITIES

1. Approval of a new Strategy on prevention and fight against money laundering for years 2020-2025.
2. Restrict transactions between the public sector and entities from offshore jurisdictions, and protect essential infrastructure from takeovers by non-transparent or compromised entities.
3. Implement the Law no. 75/2020 ensuring sufficient time for the reporting entities to accommodate to the new provisions.
4. Withdrawal of the draft law on amending certain normative acts (the notion of effective beneficiary) and its adjustment to the declared purpose of the draft law, as well as taking action to ensure sanctions for erroneous application of Law no. 308/2017 in private law relations.
5. Involvement of judges in the training process on money laundering cases for the correct assessment of evidence, as well as for the correct application of the provisions of Laws no. 308/2017 and 75/2020.

3. TITLE IV - ECONOMIC AND SECTORIAL COOPERATION

CONTEXT

As in previous years, we are witnessing a moderate progress on Title IV of the Association Agreement. Although progress has been made in the analysed areas, in some sectors initiatives have been partially implemented or implementation has not taken place as planned at the stage of approval of the planning or regulatory document.

Public administration reform has not made significant progress. The arrears include the completion of the reorganisation of several administrative authorities and public institutions subordinated to ministries. Although some regulations have been approved for several public institutions subordinated to the central public administration authorities, those are rather technical in nature and are not substantial. The PARS implementation for years 2016-2020 was not evaluated.

During the reference period, the authorities successfully concluded the three-year Programme, signed with the International Monetary Fund (IMF) in 2016. In July 2020, the Government of the Republic of Moldova initiated negotiations for a new programme with IMF. The possible signing of a new Programme for the period 2020-2023 will continue the process of strengthening governance in the Republic of Moldova and will be a positive step for the management of public finances, which were affected by both the COVID-19 pandemic and the summer 2020 drought.

The construction of the Ungheni-Chisinau Gas Pipeline (120 km of linear section) was completed. At the initial stage, the pipeline will be able to deliver up to 1.5 million m³ of gas. Completion of construction works is an important step in ensuring energy security of the Republic of Moldova, an effort started in 2014. However, it is not known when and if the potential of this gas pipeline will be used to its maximum.

The development of infrastructure, including local roads, must be a priority, given the current state of roads in the country. In 2020, the funds of the Road Fund for public roads increased by 68% compared to 2019, reaching 1.7 billion MDL. However, it seems that the authorities are learning slowly from the mistakes of previous programmes of local roads. The distribution of funds under the "Good Roads" Programme has been affected by political clientelism, whilst mayors and citizens with other political visions appear to be deprived of the necessary investments. At the same time, the authorities continue to face difficulties in organising public procurement tenders for large infrastructure projects, including due to low capacity of the institutions responsible for this area.

Household waste continues to be a major challenge for the authorities. The problem is specific to many settlements of the Republic of Moldova but is more visible in Chisinau municipality. Every day, the inhabitants and the enterprises located in the capital generate between 5000-5100 m³ of garbage. The reduced recycling capacity negatively affects the air, water, soil and health of people, especially those who have homes in areas close to the garbage landfills.

The field of regional development has made significant progress in adjusting policy documents and changing the approach to the sector - from reducing disparities to increasing competitiveness and promoting sustainable development. At the same time, the institutional reforms remain outstanding, through which the management of the NRDF will be ensured by a specialised Agency, but also the return to the subject of territorial-administrative reform taking into account the priorities of regional development.

In the field of education, youth and sports, the National Agency for the Development of Youth Programmes and Activities was created. Its main objective is the development of the youth field and is part of the measures and actions to strengthen the youth sector and the key elements through which it is defined.

The help of development partners was crucial in keeping the public health system afloat. The European Union provided financial assistance to the Republic of Moldova, reorienting 87 million euros to support anti-COVID-19 measures and providing 30 million euros as assistance to the health system. De facto, the COVID-19 virus and the pandemic caused by it highlighted the low capacity and weak resilience of the national public health system in the Republic of Moldova. In the future, the approach to the medical system should be changed, and the emphasis - placed on increasing investment in modernising hospitals.

In the media sector, limited progress was made during the reference period, and the technical actions implemented did not contribute to increasing press freedom or solving the problem of the monopoly on the advertising market linked to mass-media. The Republic of Moldova has not advanced in terms of press freedom, retaining its 91st place out of 180 countries evaluated according to the World Press Freedom Index. Low editorial independence, media concentration and poor quality of journalism were among the main problems identified by international experts. The new Law on Non-Commercial Organizations was adopted in the final reading, but the dynamics of the relationship between civil society and the authorities remains difficult. Interaction and dialogue are also affected by the provocative rhetoric used by political representatives towards civil society.

PUBLIC ADMINISTRATION REFORM

PROGRESS

The Government approved in June 2020 the regulatory instrument of approval of strategic planning acts. The regulation provides for the categories of planning documents - strategies, programmes, development plans and annual plans. The new mechanism for planning, developing, approving, implementing, monitoring and evaluating public policies will provide more clarity on the interdependence and link between different categories of planning documents.

The reform of administrative authorities and public institutions subordinated to ministries has been partially completed, based on the priorities set by the Public Administration Reform Strategy for 2016-2020 (PARS) and the Action Plan for 2016-2018, as well as in accordance with Government Action Plan for 2019-2023. Thus, during 2019 and 2020, new regulations for the organization and functioning of administrative authorities and public institutions subordinated to ministries (NSIA subordinated to the MHLSP, Information Technology Service, General Inspectorate of Carabinieri, General Police Inspectorate subordinated to MIA, etc.) were approved. A draft Regulation of activity of the National Ecological Fund was finalised at the stage of public consultations and collection of opinions from the specialised central public authorities.

Public services have been adjusted in the context of COVID-19, with pre-programming tools being applied, while respecting the distance between service providers. However, this scheme has not been provided by all administrative authorities and public institutions providing fee-based services.

CONSTRAINTS

The public administration reform was not guided by a Government planning document. Although PARS is in force until the end of 2020, an Action Plan for 2019-2020 has not been approved. Also, as the Government did not come up with a detailed report in this regard, it was not possible to assess the impact of the PARS and the Action Plan.

Actions to reorganise the administrative authorities and public institutions subordinated to several ministries are still pending - in particular, we will mention the Ministry of Agriculture, Regional Development and Environment (MARDE). The institutional framework for natural resource management has not been revised, although in the context of climate challenges and the 2020 drought, more efficient management of water, forest and natural resources would have been possible through a single integrated agency. Similarly, public institutions in the field of meteorological management and monitoring have not been re-evaluated in terms of the efficiency of their work.

The government has failed to promote the Framework Methodology for setting tariffs for public administrative services provided against payment, although this is one of the few actions related to the efficiency of the central public administration and subordinated institutions.

Territorial-administrative reform, coupled with the revision of the regional development approach, was not promoted, although PARS set these actions among its priorities. Both in 2019 and in 2020, the Government did not undertake actions to promote territorial-administrative reform. However, on 28 July 2020, a Working Group on the central and local public administration reform was set up by order of the Prime Minister. The group was tasked to assess the current situation on central and local public administration reform, prepare and present to the Government for approval a package of reform proposals.

PRIORITIES

1. Approval of a strategic planning document in the field of central and local public administration reform for the next five to seven years.
2. Implementation and improvement of the mechanism of planning, drafting, approval, implementation, monitoring and evaluation of public policies, including through the implementation of the commitments of the Republic of Moldova in the Association Agreement and the future Association Agenda.
3. Completion of the process of reorganisation of administrative authorities and public institutions subordinated to ministries and other specialised central administrative authorities.
4. Promote the territorial-administrative reform of the Republic of Moldova to strengthen the efficiency of self-administration of local public authorities, through a broad consultation process and set the advantages of voluntary amalgamation and the criteria on the basis of which amalgamation can take place.

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

PROGRESS

The draft Budget Law was approved by the Parliament of the Republic of Moldova on December 19, 2019. Although there was a delay in the reference period (the deadline according to the law is December 1), there was a tendency to maintain the budget approval discipline, which started in 2019.

During the reference period, the authorities successfully completed the three-year Programme concluded with the International Monetary Fund (IMF) in 2016. The major achievement of this Programme was the restructuring of the banking sector. In July 2020, the Government of the Republic of Moldova initiated negotiations for a new program with the IMF. A potential signature of a new Programme for the period 2020-2023 will continue to contribute to the process of strengthening governance in the Republic of Moldova and will be a positive step for the management of public finances, which were affected by the COVID-19 pandemic and drought.

At the same time, the Court of Accounts issued an unchanged opinion (unqualified audit) on the enforcement of the State Budget for 2019. The current conclusion is an improvement over 2018, when the Court of Accounts issued a reserved opinion, finding deviations at both financial aspects (VAT refund), as well as non-compliance (non-compliance with the budgetary calendar).

CONSTRAINTS

In 2020 the authorities failed to determine the role and functions of the Financial Inspection. The action in question was planned for 2017. At present, the draft Government decision is in the finalisation stage within the Ministry of Finance. Earlier, a draft law had been prepared in this regard, but at that time the Government gave a negative opinion, stating that a unified approach was needed on the control prerogatives of the managers of the institutions, as well as on the internal audit and financial investigations.

No actions were registered to establish an independent Fiscal Council, which would ensure an external validation on the fiscal provisions and on the draft Budget and on the Medium-Term Budgetary Framework.

Although there is progress in meeting the budgetary timetable, the authorities do not fully involve citizens in the process of drafting of the Budget, especially in the initial stages. Placing the draft decision in an advanced form does not allow citizens to come up with suggestions and recommendations that could change spending priorities. This fact is also confirmed by the results of the Open Budget Survey, in which the Republic of Moldova accumulated only 57 points out of 100, and the participation of citizens accumulated the lowest score.

PRIORITIES

It is important to maintain the positive pace and dynamics obtained in the field of public finance management, including by carrying out the following actions:

1. Establish the necessary steps for the establishment of the Fiscal Council with an advisory role. The reluctance of the authorities in creating this Council is determined by the weak capacities of the Ministry of Finance. Thus, it is important to establish exactly the areas that need to be improved at the Ministry of Finance to allow the establishment of this Council. The institutional reform in the field will also include the revision of the activity framework, and the modernisation of the Financial Inspection.
2. Establish mechanisms for citizen participation in the budgetary exercise at an early stage to have sufficient time to incorporate their suggestions and ideas (thematic public hearings; assessment of the quality and quantity of services provided; preparation of budgets for citizens; identification and establishment common priorities, etc.).
3. Strengthen the efforts of financial investigations, which must go beyond the events that took place in the banking sector. The Association Agreement emphasizes the creation of a modern system of public finances in general, including in the fight against fraud.

PUBLIC HEALTH

PROGRESS

The pandemic caused by the new coronavirus decisively determined the actions taken by the authorities during the reference period. The help of development partners was crucial in keeping the public health system afloat. The European Union provided financial assistance to the Republic of Moldova, reorienting 87 million euros to support anti-COVID-19 measures and provided 30 million as assistance to the health system.

The Agency for Medicines and Medical Devices signed a memorandum with the Romanian National Medicines Agency. One of its objectives is to increase cooperation during the pandemic, but also to facilitate access to medicines that have been shown to be effective in the fight against the new virus.

The government has updated the Single Compulsory Health Care Programme. The document provides for an increase in the number of medical investigations, diversification of services offered to the elderly and coverage for transportation costs for patients in need of chemotherapy.

During the reference period, the authorities decided to increase the salary of medical workers. As of September 1, 2020, the salary of medical staff has been increased by up to 30%. At the same time, according to the authorities, the increases will continue during the year and will be operated in several stages, the following being planned for January 1, 2021 (+ 30%) and July 1, 2021 (+ 40%).

CONSTRAINTS

Public procurement in the of health sector had several gaps even before the pandemic, but during the COVID-19 health emergency have amplified even more. The fact that certain exceptions are allowed to the basic rules aimed to simplify and speed up procurement process are generally justified, but even under these circumstances there should be transparency and clarity about the purchased goods.

As of September 30, 2020, there were over 5800 COVID-19 infections among health care workers, a figure that accounts for over 11% of the total number of diseases in the Republic of Moldova (52,029 cases). One explanation is that, in the initial stages of the fight against the pandemic, there was not enough protective equipment, or it was not of good quality. At the same time, there were several problems in the exact communication of data on the quantities of protective equipment or on the number of available tests.

The medical institutions in the country, including at the level of the district centres, continue to face insufficiency of qualified medical staff. This affects the access of the population of the regions to good quality medical services, whilst the COVID-19 crisis could worsen the situation even more.

PRIORITIES

The Covid-19 pandemic highlighted the low capacity and weak resilience of the national public health system in the Republic of Moldova. In the future, the approach to the medical system should be changed, and the emphasis should be placed on increasing investment in modernising hospitals.

1. Improving strategic communication: poor communication from politicians, but also from senior officials responsible for managing the crisis COVID-19 contributed to the spread of confusing messages about the spread of the disease and the management of the situation.
2. Observance of the stages of salary increase for the medical staff: the fluctuation of medical staff and the lack of qualified staff is determined by lower salaries in the health sector. The decision of the authorities to gradually increase salaries is welcome.
3. Modernisation of hospitals in the country: the pandemic has shown that hospitals in the regions are not adequately equipped and cannot provide quality services to citizens. The approach by which financial sources are used for cosmetic repairs of healthcare institutions is not a sustainable one. Thus, a new programme is needed to provide for the modernisation of hospitals throughout the country.
4. Increase the transparency of public procurement in the health sector, including through the use of the MTender electronic platform manage medical procurement.

AGRICULTURE AND RURAL DEVELOPMENT

PROGRESS

The policy framework in the field of agriculture and rural development has been strengthened by important additions to [Law no. 276/2016](#) on the principles of subsidy in the development of agriculture and rural environment, as well as [Law no. 436/2006](#) on local public administration. Thus, by [Law no. 17/2020](#), local public authorities were allowed to participate as co-founders of Local Action Groups (LAGs) to benefit from available resources from the EU but also from the National Agriculture and Rural Environment Development Fund (NAREDF) via the LEADER approach and strengthen the involvement of local civil society and the businesses in the development of municipalities. As a result, LPAs also have the opportunity to contribute financially to ensure the sustainability of the created LAGs. A [draft law](#) on local action groups is currently in the Government for examination and approval.

Law no. 276/2016 was completed with some amendments to Law no. 156/2020, based on which the resources of the NAREDF become more accessible. These include the integration of returned migrants, women farmers, young farmers, but also channels NAREDF resources to agricultural producers and producer groups with storage capacity, agricultural land in property and at least 50% local supplies for meat and dairy products.

On September 11, 2020, the Parliament adopted in final reading [Law no. 183/2020](#) on subsidy insurance in agriculture. The law provides a series of special provisions for the insurance of agricultural crops, setting the criteria to determine the harvest eligible for insurance, provides for the possibility of payment in instalments of the insurance premiums and sets maximum compensation rates for compromised harvest, as well as the insurance cases, which are included in an insurance contract in the agricultural sector.

To combat the effects of the drought, in July 2020 the Government approved the [Regulation](#) on the Compensation for Damage Caused by the 2020 drought.

CONSTRAINTS

The pandemic generated by COVID-19, but also the severe drought of 2020 severely affected the agricultural sector. From the data [presented](#) by the National Bureau of Statistics, the effects of the pandemic and of the drought reduced the Gross Domestic Product by 14.0% on the gross series and by 11.5% on the seasonally adjusted series. The medium-term impact of these two factors could be significant for agriculture and food security.

The Government's response to the pandemic situation in the Republic of Moldova - especially in terms of supporting agricultural producers - was insufficient. Although the transitional provisions of Law no. 156/2020 stipulates that the resources within NAREDF will be used in 2020 by derogation from the provisions of the Law, to compensate the losses caused by severe drought, the period in which it was possible to request these compensations from the Agency for Interventions and Payments in Agriculture (AIPA) was [very short](#) (until September 18, 2020). At the same time, the manner of distribution of funds by the Executive, by allocating 100 million MDL through NAREDF, managed by AIPA and another 200 million MDL through the Government Intervention Fund, raises questions of transparency and efficiency of use of public funds. During the state of emergency, the Government did not come up with a mechanism to compensate and support producers in the agricultural and rural sector. At the same time, [Law no. 60/2020](#) - which aimed at offsetting interest on loans and recovering VAT, as well as areas not directly related to the area of emergency management, such as tariffs for ore extraction - had a minimal impact on the business environment, whereas a very small number of potential beneficiaries could afford to access loans, the interest of which was to be offset.

The impact of the [National Agricultural and Rural Development Strategy for 2014-2020](#) (NSARD) was not assessed for 2019. Meanwhile, important elements of the functioning of AIPA, including the recovery of financial resources under NAREDF, which were operated in 2018, needed an assessment to see the impact of the new approaches to supporting agricultural producers, as well as the degree of transparency of AIPA's activity.

PRIORITIES

1. Conduct an impact assessment of the NSARD 2014-2020, development and promotion of a new strategic planning framework in the field of agricultural and rural development for the next planning cycle.
2. Transfer available resources to compensate for losses incurred by agricultural producers from the Government Intervention Fund to AIPA to ensure transparency and efficient use of State Budget resources.
3. Prioritise for the next strategic planning document the strengthening of capacity of domestic producers to associate, standardise production, research markets for more profitable products, and support the promotion of these high-end products on the EU market.

COOPERATION IN THE ENERGY SECTOR

PROGRESS

Efforts to adjust rules in the field of renewable energy and energy efficiency continued during the reference period. This year will mark ten years since the creation of the Energy Efficiency Agency and the implementation of the National Energy Efficiency Programme. At the end of 2019, the Government approved the National Action Plan in the field of energy efficiency for the years 2019-2021. The document includes actions in various areas for both the public and private sectors. For example, the authorities will make more effort to promote electric vehicles and urban public transport.

In December 2019, the Parliament of the Republic of Moldova ratified the Financing Agreements with the International Association on the Development of the Power System, intended for the extension of the Vulcanesti station and the construction of the 400 kV Vulcănești-Chisinau OHL power line. At the same time, the feasibility study for the 400kV Balti OHL project is currently being updated.

In February 2020, the National Agency for Energy Regulation (NAER) approved the Action Plan for the separation of the natural gas transmission operator "Moldovatrangaz" SRL. The entire separation process is to be completed in October 2020. The construction of the Ungheni-Chisinau Gas Pipeline (120 km of linear section) was completed. At the initial stage, the pipeline will be able to deliver up to 1.5 million m³ of gas. The completion of the construction represents an important stage in ensuring the energy security of the Republic of Moldova, an effort initiated in 2014.

CONSTRAINTS

Weak implementation capacities at both central and local levels continue to be a major challenge for authorities, and this is hampering the speed of implementation of European Union directives, which contain ambitious targets.

The Energy Strategy of the Republic of Moldova was not updated until 2030. This action is a long-standing one, and the delay is caused by the lack of long-term final and primary energy consumption forecast, necessary for modelling and setting targets for year 2030. So far, the draft Law on minimum oil stocks was not approved, which would transpose Directive 2009/119/EC. This action was planned for the end of 2017.

During the reference period, as in previous years, several suspicions of interference (from politicians or oilmen) related to the correctness of pricing of petroleum products were reported. The increase in fuel prices at the beginning of 2020 led the Competition Council monitor the competitive environment in the petroleum products market in more detail (however, the Council did not identify the existence of cartel agreements).

PRIORITIES

The use and production of renewable energy, environmental protection and sustainability, and the development of policies to address climate change will play an increasing role in the near future, and the reform and modernisation of the energy sector of the Republic of Moldova is essential to achieve these goals.

1. Compliance with the set schedule of separation of the natural gas transmission system operator.
2. Monitoring of the Energy Efficiency Programme of public buildings to ensure efficient spending of public money.
3. Improve capacity at both central and local levels to increase the speed of implementation of EU directives and the degree of absorption of financial resources.
4. Ensure an effective independence of the energy regulatory institution (NAER) and avoid any political interference in its activity.
5. Prepare the necessary framework for the commitment to maintain the minimum level of oil stocks to anticipate a subsequent negative impact.
6. Increase investments in energy security by obtaining direct access to the European electricity market must be a priority. Speed up the construction of the line 400kV OHL Chisinau-Vulcanesti-Isaccea and OHL 400kV Balti.

TRANSPORT

PROGRESS

One of the objectives of the Association Agreement in the transport sector is to provide sufficient funding for the development of modern infrastructure. In 2020, the Road Fund share reserved for public roads increased by 68% compared to 2019, reaching 1.7 billion MDL. About 65% of all money goes to the rehabilitation of over 900 km under the "Good Roads for All" Programme.

SOE "Calea Ferata din Moldova" received all 12 locomotives, purchased with the support of the European Union, the European Investment Bank and the European Bank for Reconstruction and Development. The Parliament approved the Law on the Accession of the Republic of Moldova to the Convention on International Carriage by Rail. In addition to the obligation to comply with international environmental standards, which will increase the degree of protection of the environment, accession to the Convention will lead to an increase in the volume of freight in transit in the East-West direction. At the same time, the Government approved the draft law of the Railway Transport Code, which partially transposes the EU directives in the sector. The implementation of the document should increase the level of competition, in the context in which all private operators will have non-discriminatory access to railway infrastructure. At the end of September 2020, the Government approved the draft law on the investigation of transport accidents and incidents.

In the field of civil aviation, the Parliament adopted the Law on Liability for Air Carrier and Aircraft Insurance Requirements. The document sets out clear rules for the civil liability of all aircraft operators and defines the minimum insurance requirements to cover damages.

CONSTRAINTS

The distribution of funds under the "Good Roads" Programme contains elements of political clientelism. According to a study that analysed how the financial resources were used, in 2019, a person's chances of obtaining financing for road repairs were 2.6 times higher if he lived in a settlement where the mayor's office was affiliated to the party from the Government. In addition to the aspect of political clientelism, the authorities continue to face difficulties in organising public procurement for large infrastructure projects, including due to the low capacity of the institutions responsible for this sector.

The inclusion of the Republic of Moldova in the list of countries with a high number of breaches of international conventions confirms the reduced institutional capacity in the field of naval transport.

The concession contract of the Chisinau International Airport continues to provoke heated discussions, and the Public Property Agency has issued a notice of termination. The dispute is to be debated at the International Court of Arbitration, and until the merits of the dispute are not resolved, the Moldovan authorities cannot implement the notice of termination.

Integrating environmental provisions into transport policy remains a major challenge for the authorities. On one hand, they are trying to ensure a high degree of accessibility for private transport, on the other hand, they are forced to implement actions to reduce harmful emissions, which increase the cost of owning a car.

PRIORITIES

1. Reduce political clientelism by improving transparency in the allocation and management of money earmarked for infrastructure projects. The communication and management of infrastructure projects must be ensured, first of all, by the Ministry of Economy and Infrastructure and other competent institutions, not by the President of the Republic of Moldova.
2. Approval of the new Regulation on periodic technical inspection - the authorities have been postponing the adoption of this document, since the initial deadline has already passed three years ago. The 1999 Decision is outdated and does not adequately address transport issues: environmental protection and traffic safety.
3. Drawing greater attention to road safety in the construction and rehabilitation of national roads. Developing investment plans for safer roads, conducting road safety audits and constantly evaluating national routes to reduce the number of accidents and casualties.
4. Successful completion of projects already started in the field of infrastructure, including those carried out with the support of development partners.
5. When initiating new projects, it is recommended that more attention is paid to high-traffic areas so that sustainable solutions are provided for nodes where current capacities are no longer able to cope.
6. Detailed analysis of ships from the State Register and exclusion of the Republic of Moldova from the list of countries with the most breaches of international conventions in the field of naval transport.

ENVIRONMENT

PROGRESS

The Republic of Moldova has completed the adjustments to the Second National Determined Contribution (NDC), a document that establishes the level of reductions in greenhouse gas emissions. Thus, by 2030, these would decrease by 70% compared to 1990. It is welcome that the target became more ambitious than in the first NDC, but even more important is the development and implementation of policies that will contribute to this goal.

At the end of 2019 the Financing Agreement with the European Investment Bank for the implementation of the Project "Solid Waste in the Republic of Moldova" was signed. According to the document, the Republic of Moldova will have access to a credit line of up to 100 million EUR.

During the reference period, the Law on the control of major accident hazards was approved, which stipulates the reduction of accidents involving dangerous substances and the reduction of the consequences of such incidents. The adopted law fully transposed the EU Directive in this sector. The government has set up a new mechanism to coordinate climate change activities. Two members out of 17 represent environmental non-governmental organisations and are to be appointed by the National Council of Environmental NGOs. The creation of this mechanism should give impetus to the integration of climate change issues into policy documents.

The Government has adopted the Regulation on the export and import of chemicals (transposes EU Regulation 649/2012/EU); Regulation on batteries and accumulators and their waste (transposition of Directive 2006/66/EC); Regulation on the control of emissions of volatile organic compounds resulting from the storage and distribution of petrol from terminals to petrol stations (transposes Directive 94/63/EC) and the Regulation on packaging and packaging waste (transposes Directive 94/62/EC).

CONSTRAINTS

Household waste continues to be a major challenge for the authorities. The problem is specific to many municipalities in the Republic of Moldova but is more pronounced in Chisinau. Every day, the inhabitants the enterprises located in the capital generate between 5000-5100 m³ of garbage. Although the Law on Waste provides for the establishment of their separate collection, so far that regulation has not been implemented. According to the experts, a separate collection would reduce by up to 60% the volume of waste that is transported to the landfill of Țânțăreni, Anenii Noi. The reduced recycling capacity negatively affects the air, water, soil and health of people - especially those who have homes in areas close to landfills.

Modest results have also been seen in integrating the environment into other sectoral policies, such as transport. According to available data, transport is the largest generator of CO₂, so more attention should be paid to promoting an integrated approach to environmental protection. In 2018, the authorities approved the "Green" Economy Promotion Programme, which provides for the development of tax incentives for the import of electric and hybrid motor vehicles, as well as the development of the necessary national infrastructure for electric vehicles. So far, however, no action has been taken to implement these provisions.

The National Ecological Fund is still under political control, being managed by the Ministry of Agriculture, Regional Development and Environment. There is no transparent, impartial mechanism with clear rules for the selection of environmental projects and their financing.

PRIORITIES

1. All economic activities should contain elements to ensure environmental sustainability.
2. Separate waste collection and recycling, including by promoting public-private partnerships. Waste management remains a challenge for the authorities - although the Waste Management Strategy is in its seventh year of implementation, the actions taken have been far too timid to improve the situation in the country.
3. Integration of environmental policies into other sectoral policies, in particular transport policies: developing tax incentives for electric and hybrid vehicles; the gradual introduction of the concept of emission taxation; development of a national network of electric car charging stations.
4. Recover all delays in meeting commitments from policy documents already approved by the Republic of Moldova and implement the activities that will achieve ambitious goals (e.g., reducing greenhouse gases, banning the collection of waste through pipes, reducing energy consumption).
5. Establish a clear and transparent mechanism for accessing financial resources disbursed by the National Ecological Fund.

REGIONAL DEVELOPMENT

PROGRESS

At the beginning of 2020 the National Regional Development Coordination Council (NRDCC) approved the Report on the implementation in 2019 of the National Regional Development Strategy (NRDS) for 2016-2020. The report refers to infrastructure investments that have been made through resources from the National Regional Development Fund (NRDF).

The NRDCC also approved the new Concept of regional development in the Republic of Moldova. It envisages changing the approach to regional development by "increasing the competitiveness and sustainable development of each region, adjusting disparities and increasing people's quality of life". The new concept also moves from "balanced socio-economic development and direct support for the socio-economic development of disadvantaged areas" to "action to increase the competitiveness and sustainable development of each region to increase the quality of life of citizens." This change will lead to the change of approach in the use of resources from the NRDF, but also to a change in the perspective of the development partners, focusing on: a) making better use of the potential of the most important urban areas to generate growth and employment and stimulate development; (b) supporting the socio-economic revitalization and restructure smaller or isolated areas by identifying and benefiting from traditional activities; and (c) increasing the conditions for the absorption of innovations and the skills needed to manage and manage the development processes. Based on good practices taken from urban revitalization, funds were allocated from NRDF resources to implement projects that follow this concept. MARDE approved the guidelines to develop and approve revitalisation programmes.

The NRDCC also approved the draft law on amending Law no. 438/2006 on regional development, aimed to implement the new concept of regional development, which has been subject to public consultation and is at the approval stage in the Government.

During 2019 and 2020, several infrastructure investment projects were implemented in the Republic of Moldova, supported by the EU, UNDP, GIZ, USAID, the Swiss Confederation and Austria (ADA), whose purpose is urban and rural revitalization, connecting municipalities to aqueduct and sewerage networks, promoting the sustainable development of the cities of Ungheni and Cahul.

CONSTRAINTS

Out of the total of 201.76 million MDL, planned for financing the projects approved in the Single Programming Document (SPD), 127.3 million were used. The lack of absorption of an amount of just over 70 million MDL is an impediment for the extension of the impact of infrastructure projects financed from the State Budget through the NRDF.

The policy area in the sector of reorganisation of administrative authorities and public institutions subordinated to MARDE has not made the necessary progress. Thus, the issue of NRDF management by a separate agency was not solved, and the initiatives to jointly manage NRDDF and the National Ecological Fund (NEF) were not accepted, MARDE returning to the idea of their separate management, once a separate NEF Regulation was promoted.

The political events of 2019, including the change of three Governments and local elections, have diminished the efficiency of the NRDCC, given that its composition is largely composed of high-ranking government officials.

The limited capacity of local public authorities does not allow the development of project proposals and related technical documentation that meet the requirements of accuracy and, consequently, lead to delays in the process of initiating, completing public procurement tenders and signing contracts.

PRIORITIES

1. Evaluation of the impact of the NDRS implementation for the years 2016-2020.
2. Efficient implementation of the new Concept of regional development, by approving the amendments to the normative framework - in particular, Law no. 438/2006 - and the approval of a new planning document, in accordance with the new requirements approved for strategic planning documents.
3. Transfer of NRDF management from MARDE to an Agency specialised in fund management with the implementation of the new criteria for use of funds for regional development.
4. Promote the administrative-territorial reform, taking into account the aspect of regional development to ensure the implementation of the new concept of regional development, focused on increasing competitiveness and sustainable development.

INFORMATION SOCIETY

PROGRESS

During the reference period, the Government approved amendments to the Law no. 241/2007 on electronic communications, so as to ensure equal and non-discriminatory treatment of internet traffic. At the same time, the National Agency for Regulation in Electronic Communications and Information Technology (NARECIT) will monitor and make public the reports on the quality of the internet access service.

The Parliament approved amendments to the Fiscal Code, obligating transnational companies to pay value added tax for services provided in the Republic of Moldova. So far, as a result of this regulation, 32 companies have been registered, which have paid over eight million lei. Taxation of digital companies continues to provoke heated discussions between the European Union and the United States, and as no compromises have been identified so far on global taxation rules, some EU countries are examining the possibility of introducing their own taxes.

During the reference period, the number of Moldova IT Park residents reached 600 companies, of which 100 companies joined the IT park during 2020. The resident companies are founded by investors from the Republic of Moldova and 34 other countries.

In order to ensure an integrated system of communication and assessment of cyber security threats, the Government approved Decision no. 482/2020. Thus, a Cyber Security Incident Response Centre will be set up.

CONSTRAINTS

The Competition Council imposed a fine of 2.2 million MDL on the company "Starnet Soluții" SRL (provider of internet and television services) for abuse of a dominant position on the market of audio-visual retransmission services. On one hand, identifying and enforcing sanctions for companies that abuse a dominant position could be considered a success, especially given that competition is often distorted. On the other hand, there are several questions about the objectivity of this sanction. If we are to ensure the further development of the information sector, it is important that such actions are applied correctly to all operators and not in a selective manner.

The cyber security audit was carried out during the reference period. The report should have covered cyber threats and incidents, the number of people affected, and the economic damage caused by cyber-attacks. However, although the report was developed, the findings of the document were not made public.

The low degree of implementation of numerous Strategies and Action Plans in the field of information and communication technologies is determined also by limited financial resources. For example, delays in switching to digital television have been caused by poor financial resource planning.

PRIORITIES

For the next period, the aim of the authorities must be to promote healthy competition, improve network security and further develop the public services offered online.

1. The adoption by the Parliament of the amendments to Law no. 241/2007 for improving the quality of services provided and completing the transition process to digital terrestrial television.
2. Improve the planning process for actions in the field of information society to ensure a better correlation between them and the budget allocated for their implementation.
3. Improving resilience to cyber-attacks, including by modernizing the regulatory and institutional framework in the field of cyber security. Both nationally and globally, there is an increase in the number of cybercrime and cyberattacks. Ensuring cyber security must be a priority for the authorities.
4. Improvement and further development of the 112 service.

AUDIO-VISUAL AND MEDIA

PROGRESS

Limited progress was made during the reference period, and the technical actions implemented did not contribute to increasing media freedom or solving the problem of the monopoly in the field of advertising. These are two areas in which the Republic of Moldova continues to show little progress.

The Audio-visual Council approved the Methodology for monitoring the sound level in the audio-visual services. Setting the sound level will improve the right of consumers of audio-visual services. A Cooperation Agreement was signed between the Audio-visual Council of the Republic of Moldova and the National Audio-visual Council of Romania. The preparation of these documents is provided for in the Association Agreement and aims to improve the level of cooperation and to stimulate the exchange of experience in the field of audio-visual space in the partner countries covered by the European Neighbourhood Policy (ENP).

A welcome development on the local market is the diversity and the large number of news portals, made available to the consumer in the Republic of Moldova. Thus, there are still many aspects that should be radically improved to properly inform the consumer, pluralism is one of the main ingredients of the media sector. At present, one can identify a pluralism from a quantitative point of view, but qualitatively one can see the poles of power that the respective media sources serve.

CONSTRAINTS

During the reference period, the Republic of Moldova did not advance in terms of press freedom, ranking 91st out of 180 countries evaluated according to the World Press Freedom Index. Low editorial independence, media concentration and poor quality of journalism were among the main problems identified by international experts.

In 2019, the Audio-visual Council organized two competitions for the selection of a member of the Supervisory Board of the "Teleradio-Moldova" Company, but none of the candidates accumulated the required number of votes. In March 2020, the terms of office of two other members of the Council expired. The third competition, in which seven entries had been submitted, was suspended by the National Committee for Special Emergency Situations due to the COVID-19 pandemic. Thus, the Council currently operates with only six out of nine members.

The Parliament appointed three new members of the Audio-visual Council, the appointments in question raising suspicions of political influence over this institution. For example, one of the three appointed members was on the Socialist Party list in the February 2019 Parliamentary elections.

After almost two years of investigation, the Competition Council drew up a report stating that no evidence had been found to confirm cartel agreements between the "Casa Media" Companies (formerly owned by Vladimir Plahotniuc) and the "Exclusive Sales House" (belonging to the PSRM MP Corneliu Furculiță). The market analysis was initiated in 2018, after several television stations submitted a notification informing the Council about the anti-competitive actions of the advertising companies. The intervention of the authorities and the solution of this problem is essential to ensure the sustainability of independent media.

PRIORITIES

Investigating anti-competitive practices, strengthening media independence and increasing the quality of journalism should be the key objectives for the next period:

1. Selection of the members of the Supervisory Board of the "Teleradio-Moldova" Company following a fair, transparent and objective competition.
2. Additional investigation of the advertising market to exclude anti-competitive practices - the independent press cannot develop if fair access to the advertising market is not ensured. The Competition Council does not effectively exercise its regulatory function and has not made sufficient efforts to exclude the monopoly of the advertising market on the basis of the principles of fair competition.
3. Ensuring the true independence of the Audio-visual Coordinating Council and the observer councils of public broadcaster, including by applying criteria for the appointment of members on the basis of professionalism, not political representation.

COOPERATION WITH CIVIL SOCIETY

PROGRESS

After several delays and attempts to substantially change the draft law on non-profit organizations, on June 11, 2020, the Parliament of the Republic of Moldova adopted the law in final reading. It was one of the few bills voted unanimously by MPs. The previous evaluation reports mentioned that approving the document as agreed by local and international experts would send a signal that the authorities were ready to take the first steps to reset the dynamics in the relation with civil society.

The results of the percentage designation for 2019 were weaker than for 2018. Thus, according to the preliminary data of the Fiscal Service, the number of taxpayers who made the percentage designation was 28,506 (with 5560 people less than last year), and the amount transferred was 6.37 million lei (with 1, 3 million less than in 2018). However, the fact that the mechanism reached its fourth year of implementation is a positive development. In total, starting with 2017, CSOs received over 16.1 million MDL

During the reference period, the Parliament set up a consultation mechanism with civil society to improve its work. Although it was set up in December 2019, no consultation was held on the platform for 9 months, with parliamentary committees continuing to send draft laws for consultation only to certain CSOs. The activity and efficiency of this mechanism will be analysed in more detail in subsequent reports, but the establishment of the advisory platform is important, given that parliamentary activity is less transparent.

CONSTRAINTS

The dynamics of the relationship between civil society and the authorities remains difficult. The development of a friendlier framework for cooperation (for most of civil society) has failed. Interaction and dialogue are also affected by the provocative rhetoric used by some representatives of the political class towards civil society. For example, although Socialist Party MPs supported the draft law on non-commercial organisations, there have been attempts to substantially change some of its provisions. Such actions cannot ensure trust and cannot contribute to the development of a genuine dialogue. Decision-making transparency, citizen participation and consultation with civil society is very low both in legislative initiatives and in amendments drafted by MPs and throughout the process of adopting normative acts.

There is a certain decrease in the number of taxpayers using the percentage designation mechanism, which could be explained by the limitation of the freedom of movement during the state of emergency due to the covid-19 pandemic, which in 2020 coincided with the 2% designation period. For 3 consecutive years, the largest beneficiary of the 2% mechanism is the Public Association of Veterans and Retirees of the Ministry of Internal Affairs of the Republic of Moldova (23% of the total targeting). We observe that an increasing number of CSOs created by employees or former employees of state institutions are among the largest beneficiaries of the 2% designation mechanism.

PRIORITIES

Restoring confidence and resetting the dynamic in the relationship between authorities and civil society organisations is imperative. Authentic and fruitful dialogue is possible when the relationship between the authorities takes place rather in a friendly than a hostile environment. Therefore, in addition to the technical activities of implementing the Civil Society Development Strategy, it is necessary to change the rhetoric and actions of political factors towards the associative sector. The following actions are also required:

1. Genuine involvement of citizens and civil society in the decision-making process - increasing transparency in policy formulation and decision-making, including through the broad involvement of citizens in the budgeting process, starting with identifying and setting spending priorities; the use of multiple channels to ask the views of civil society organisations; keeping promises and establishing a permanent dialogue and exchange of information between authorities and civil society.
2. Evaluation of the 2% designation mechanism to increase the number of taxpayers and ensure a fair distribution of the designations, by increasing the capacity of CSOs in organising informational campaigns on the 2% designation mechanism.
3. Development of clear mechanisms of financial support from the state for the benefit of civil society - which will allow the unification of procedures and conditions of financing from the State Budget.
4. Planning of financial resources for a final evaluation of the Civil Society Development Strategy (2018-2020).

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

CONTEXT

Moldova's exports to the EU decreased slightly in 2019, which subsequently became more visible in the first seven months of 2020. De facto, exports decreased by 107.9 million USD compared to the first seven months of 2019. The pandemic generated by COVID-19, as well as the severe drought that hit Moldova in 2020, will affect the level of exports to the EU this year, measured in absolute numbers.

Products exported to the EU are largely of a low level of profitability. Although Annex no. XV-C of the Association Agreement has been adjusted to increase the tariff quotas for some products (table grapes, plums and fresh cherries), they have been used quite modestly. At the same time, exports of agricultural products included in the list of goods exposed to the circumvention avoidance mechanism will most likely not be used in the same manner as in previous years, given the negative effects of the severe drought of 2020 that hit Moldova.

The field of standardisation, metrology and conformity assessment has made moderate progress in transposing EU standards into the national framework. The Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) is being currently negotiated with a perspective for signature and implementation.

Although the measures and actions to be implemented to export products of animal origin (chicken and category B eggs) have been agreed, so far this right has not been obtained. Authorities continue to face various obstacles, such as limited human resources, but also the lack of significant investment needed to adjust the production process to all health standards. In this context, the support provided by the [European Union](#) for the improvement of the laboratories of the National Agency for Food Safety is very valuable.

The process of electronic customs clearance of goods has been facilitated and a large infrastructure project is being implemented for the rehabilitation of six customs posts at the Moldovan-Romanian border. The implementation of the NCTS, the conclusion of the Agreement on the mutual recognition of authorized economic operators with the EU Member States, as well as the implementation of the Go Swift border crossing mechanism remain pending.

Improving governance in the financial sector is one of the areas that will be included in the new programme with the International Monetary Fund. Strengthening the independence of the National Bank of Moldova (NBM) and reforming the non-banking financial sector will be the objectives pursued by the authorities until the summer of 2023. The main element of the non-banking sector reform is the transfer of its regulation from the National Financial Market Commission (NCFM) to the National Bank. Thus, both the field of insurance and non-bank lending will be regulated by the NBM.

Although development partners, along with national experts, continue to emphasize the importance of actions that would increase the independence of the National Bank, some initiatives of political actors seek to diminish it. For example, at the initiative of the President of the Republic of Moldova, the Parliament approved a [Law](#) that will allow the reallocation of NBM profit to partially cover state debt, created as a result of the "banking fraud" discovered in 2014. Political influence is observed even via the delay in the appointment of NBM deputy governors. Currently, only four out of five positions are filled, two members having their mandate already expired.

The fees charged by banks for online / electronic transactions remain quite high and non-transparent, and this does not help encourage the use of electronic payments by citizens. The Government, together with the NBM, could make further efforts to improve the situation in the field, especially during this period of social distress caused by COVID-19.

The activity of the Competition Council focused on areas such as advertising on the audiovisual market and fuel prices. However, the activities planned in NCSAS have not been reported and evaluated, and another planning document in the field has not yet been developed.

Out of 54 acts developed to be harmonised with European Union legislation, based on the provisions of the Association Agreement and NAPIAA for 2017-2019, 22 normative acts were approved - mostly Government Decisions, but also decisions of the NBM and orders of the Customs Service.

Six years after the entry into force of the Association Agreement, including the DCFTA, the EU has initiated the process of ex-post evaluation of the social and economic impact of the Agreement. The evaluation report will be presented in 2021.

EXPORTS

PROGRESS

Exports of goods from the Republic of Moldova to EU member states did not register a significant decrease in 2019 compared to 2018 and amounted to 1.83 billion USD, which represents about 63% of the country's total exports for last year. Exports of goods for the first seven months of 2020 amounted to USD 893.6 million, which is about 65% of the total exports of the Republic of Moldova, with USD 107.9 million less than in the same period of 2019. At the same time, trade with other regions of the world decreased in the first seven months of 2020, reaching USD 485.8 million, compared to USD 579.8 million for the same period in 2019. Thus, compared to the total volume of exports in the same period of 2019, the decrease in exports to the EU was lower compared to the rest of the world's exports. The trade balance deficit between the EU and the Republic of Moldova also decreased - from -627.1 million USD in the first seven months of 2019 to -432.7 million USD in 2020. At the same time, on the main positions of export, in 2019 there was an increase in exports of machinery, equipment and parts - with 47 million USD, compared to 2018, reaching 554 million USD.

At the beginning of 2020, the updated Annex no. XV of the Association Agreement entered into force, which provides for updated tariff quotas for three product categories: table grapes, with a doubled amount, from 10 thousand to 20 thousand tons; plums with a 50% increase from 10 thousand to 15 thousand tonnes and a new cherry quota of 1,5 thousand tonnes, as well as the increase in trigger volumes for a number of categories of goods which are included in the anti-circumvention mechanism (wheat, barley and processed cereals).

Between January and September 2020, the most used tariff quotas were for plums (10.8 thousand tons or 72% of 15 thousand tons) and table grapes (about 7 thousand tons or 35% of 20 thousand tons). During the same period, quotas under the circumvention prevention mechanism in trade with the EU for processed cereals in the volume of 13.2 thousand tonnes were significantly exceeded, representing 263% of the total of 5 thousand tonnes, as well as for maize, including flour and agglomerates - 221.8 thousand tons (89%) of the total of 250 thousand tons.

CONSTRAINTS

Grain exports fell from 141 million USD in 2018 to 99 million USD in 2019, and textiles fell by 29 million USD, reaching 268 million USD last year.

The consequences of the COVID-19 pandemic and the severe drought of 2020 have affected several areas of export of goods, in particular those of plant origin. Government estimates a drop of more than 50% in the harvest of cereals and sunflower seeds. Given that the export of these products represents about 14% of total exports for 2019, at least with respect to them the forecasts are of a significant decrease in exports, aimed to cover domestic consumption.

At the same time, until September 2020, tariff quotas on products such as tomatoes (2000 tonnes) and fresh garlic (220 tonnes) were not capitalized at all, others such as fresh cherries were used at 13% and fresh apples at the level of 1%.

It is further noted that the main categories of goods for export are of vegetable or animal origin, with a low degree of profitability compared to human resources, land, but also used water - so important in the context of more frequent droughts in the Republic of Moldova. The lack of use of tariff quotas, but also the structure of exports mainly related to unprocessed or low-yield products, shows that local producers have not adapted and have not transposed the quality standards recommended by the EU.

PRIORITIES

1. Promoting high-profit export goods positions.
2. Supporting the businesses that have the necessary resources for production but needs additional support to standardise production based on EU quality requirements, with a focus on sectors with high export potential and profitability.
3. Integrate these priorities into sectoral policy documents (agriculture, rural development, SME support, producers' groups), with the necessary disbursement of funds from existing public resources.

STANDARDISATION, METROLOGY, ACCREDITATION AND CONFORMITY EVALUATION

PROGRESS

By the end of 2019, the Republic of Moldova adopted 26,838 Moldovan standards, harmonized with European standards published by the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). Thus, at the moment, 100% of European standards are adopted.

The Institute of Standardization of Moldova (ISM) has approved its activity plans for 2019 and 2020. Also, ISM has approved the National Standardisation Programme for 2020, which provides for the adoption of another 2410 European standards and the examination of 180 draft standards, with new areas of standardisation. By the middle of 2020, work has begun on the development of 29 Moldovan standards in areas not covered by European and international standards, and ten of them - primarily in the field of construction - have already been approved.

During 2020, the MOLDAC National Accreditation Centre accredited 24 test laboratories. Given the international recognition of MOLDAC within EA BLA, in 2018, the documents issued by laboratories and inspection bodies accredited by MOLDAC are recognised in EU Member States, without the need for conclusions of EU laboratories for products exported from Moldova.

CONSTRAINTS

ISM failed to carry out the activities planned for the current year, set out in the National Standardization Programme for 2020 by the end of the third quarter. The large number of standards planned for approval, but also of periodic verification activities of already approved standards, as well as the examination of new draft standards are a challenge for both laboratories and accredited inspection bodies.

The adoption of standards by national entrepreneurs involves an additional effort to align with the new regulations, but also the use of imported products in the technological process in the Republic of Moldova, such as the construction or processing sector. The large number of standards that entrepreneurs have to transpose in the production process is a challenge, especially in the context in which they want to enter EU markets.

The export structure of the Republic of Moldova indicates on the reduced capacities to transpose the transposed quality standards, the products that are mainly exported not being subjected to an onerous alignment effort.

The field of recognition of conformity and acceptance of industrial products has not made the necessary progress. Thus, the activities to promote the negotiations for the signing of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), launched in 2016, did not reach the desired result. At the same time, the categories of industrial products included in the ACAA could be an additional source of attracting investments in the sector and creating new jobs, but also of ensuring the increased protection of consumers in the Republic of Moldova and the EU.

PRIORITIES

1. Conclude negotiations on the ACAA and implementing its provisions on the product quality assurance infrastructure (ISM, INM, MOLDAC, testing laboratories and inspection bodies).
2. Involvement of entrepreneurs in the process of clarifying and assessing the need to adjust during the production process to new standards approved by the ISM.
3. Strengthen internal processes within the authorities responsible for quality assurance infrastructure, excluding the human factor, where possible.
4. Continuous communication between the business environment and the quality assurance authorities in the process of reviewing, updating and approving new standards.
5. Providing financing instruments for enterprises in the process of transposing quality standards, focusing on branches of the economy and on products with a higher rate of profitability.

SANITARY AND PHYTOSANITARY MEASURES

PROGRESS

The crisis caused by COVID-19 significantly affected the foreign trade of the Republic of Moldova. In January-May 2020, exports of goods were 15% lower than in the same period in 2019. However, agri-food products continued the positive trends observed in previous years, with grain exports increasing by 2.1% compared to 2019. At the same time, several categories, such as processed cereals and maize, exceeded the quotas set out in the Association Agreement (379% and 132%, respectively).

In January 2020, the Republican Centre for Republican Diagnosis obtained the accreditation certificate to the international standard ISO 17025, 2018 edition. This will allow the extension of services provided by the institution to both private food companies and the National Agency for Food Safety. At the same time, obtaining the certificate is another step towards receiving the right to export meat and poultry eggs to the European Union market. Also, during the reference period, an action plan was approved to gain access to Moldovan dairy products on the European Union market.

The Government adopted the Decision 671/2020 on extraction solvents used in the manufacture of foodstuffs and food ingredients (transposing Directive 2009/32/EC) and the Decision 483/2020 on establishing a common authorization procedure for food additives, food enzymes and food flavourings (transposes Regulation (EC) 1331/2008 and Regulation (EU) 234/2011).

The European Union continues to support the modernization of institutions and the improvement of the capacities of officials responsible for the implementation of phytosanitary actions. Thus, the EU will provide support worth one million euros for the modernization of the laboratories of the National Agency for Food Safety.

CONSTRAINTS

During the reference period, the draft law on animal husbandry was not adopted (although it had been finalised and presented to the State Chancellery). According to the Action Plan for the implementation of the Association Agreement, the document was to be approved by the end of 2017.

Similarly, although the measures and actions to be implemented in order to be able to export products of animal origin (chicken and category B eggs) have been agreed, so far this right has not been obtained. Authorities continue to face various obstacles, such as limited human resources, but also the need for significant investments to adjust the production process to all health standards. At the same time, the number of producers that have a technological process corresponding to European standards is very small. Without investments to modernise the machinery and equipment throughout the production and processing chain, the Republic of Moldova will not obtain the right to export.

PRIORITIES

The fact that the export of agri-food products did not significantly decrease during the COVID-19 pandemic demonstrates how important it is to use all the opportunities offered by the Association Agreement. And the major objective of the authorities should be to obtain the right to export products of animal origin as soon as possible.

1. Approval of the draft Law on Animal Husbandry - the document transposes 15 EU documents.
2. Obtaining the export right for eggs, poultry meat and other products of animal origin. To achieve this goal, it is important that the authorities increase the speed of adoption / implementation of European Union standards and regulations and provide support to producers wishing to export products to the EU market.
3. Technical equipment of laboratories and improvement of the capacities of officials responsible for the phytosanitary field.
4. Ensuring a high degree of protection of public health.

CUSTOMS AND TRADE FACILITATION

PROGRESS

The Parliament approved in first reading the draft of the new Customs Code. The adoption and implementation of the new Customs Code is one of the six conditionalities set to access 100 million EUR from EU OMNIBUS macro-financial assistance.

At the end of 2018, the European Commission approved a major infrastructure project: "Rehabilitation and modernisation of the border customs offices on the Romania-Moldova border, respectively the Albița-Leușeni, Sculeni-Sculeni and Giurgiulești-Giurgiulești customs offices." The project started to be implemented in the second half of 2019 and is aimed at improving the infrastructure of three customs offices in Romania and three customs offices in Moldova. The total value of the project is 10 million EUR, with a grant component of 6.428 million EUR (64.3% of project value), divided equally between the two groups of customs offices. The project is part of the Joint Operational Program Romania - Republic of Moldova 2014-2020, supported through the Cross-border Cooperation Programme.

During 2019, the Customs Service received a total of 22.9 billion MDL, of which 15.4 billion MDL represents VAT, 5.7 billion MDL - excise duties and 1.2 billion MDL - import customs duties. For 2020, the Customs Service planned the drafting and submission to the Government of the draft Government Decision on the implementation of the new computerised transit system (NCTS), as well as the drafting of the specifications for it, until the end of 2020. In the Government Activity Plan for the years 2020-2023 the implementation of NCTS is established by August 2021.

At the beginning of 2020, the Government updated the procedures for electronic customs clearance of goods, thus adopting new regulations that will reduce the time allocated to customs procedures.

Starting in May 2020, the site www.trade.gov.md is available, which provides an advanced and structured framework of trade data, including import and export activities, procedures to be followed, registration requirements and trade in the Republic. Moldova.

CONSTRAINTS

The implementation of the concept of Authorized Economic Agent (AEA) through mutual recognition with EU Member States remains a challenge. So far, the Roadmap for the negotiation and signing of the Agreement on Mutual Recognition of Authorized Economic Operators between the European Union and the Republic of Moldova has been approved. The Customs Service has set the end of 2020 as the deadline for the implementation of the Roadmap provisions.

Also outstanding are the tools to facilitate the passage of means of transport by implementing the electronic line management system when crossing the state border (Go Swift). Thus, the feasibility study was transferred from the end of 2019 to the end of 2020.

Data on the activity of the NAC and the Anti-Corruption Prosecutor's Office indicate that 11 employees of the Customs Service, on whose behalf criminal cases have been initiated, indicate an unacceptable level of corruption in the system.

PRIORITIES

1. Adoption by the Parliament and implementation of the provisions of the new Customs Code of the Republic of Moldova.
2. Negotiation, signing and implementation of the Agreement on Mutual Recognition of Certificates of Economic Agents (AEA) between the Republic of Moldova and the EU Member States.
3. Adoption of the necessary framework and implement the new computerised transit mechanism (NCTS).
4. Adoption and implementation of the electronic row management system when crossing the state border (Go Swift).
5. Reduce the incidence of corruption by continuing to digitise information systems within the Customs Service, connecting the services offered by this public authority to the electronic payment portal MPay and expanding the options available for prior presentation of data through the E-Customs platform.

FINANCIAL SERVICES

PROGRESS

Improving governance in the financial sector is one of the areas that will be included in the new programme with the International Monetary Fund. Strengthening the independence of the National Bank of Moldova (NBM) and reforming the non-banking financial sector will be the objectives pursued by the authorities until the summer of 2023.

The main element of the non-banking sector reform is the transfer of its regulation from the National Financial Market Commission (NFMC) to the National Bank. Thus, both the field of insurance and non-banking lending will be regulated by the NBM. In the last four years there has been a significant increase in loans accessed by individuals. According to a [recent report](#), in 2019, lending to individuals recorded an average growth rate of about 40% compared to 2018, reaching a share of 34% of total bank loans - the all-time high for the Republic of Moldova. Thus, every third active adult already has a bank loan or a non-banking loan (double of the amount of a few years ago). Under these conditions, more effective regulation of the non-banking sector is a welcome action (potential risks and problems are highlighted below).

The government approved the draft [law](#) on voluntary pension funds (transposes the Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORP). It has been mentioned in previous reports that the development of a private pension system will help improve the financial sector, including by providing capital for the national economy.

CONSTRAINTS

At this stage, it is not clear what the status of the capital market will be, with the NBM taking over the supervision of non-banking institutions and insurance. Currently, the capital market is supervised and regulated by the NFMC. But, given that the activity on the Moldovan Stock Exchange is very low, and the NBM already oversees the activity of the Single Central Depository of Securities, several questions arise regarding the need for a separate state institution to monitor only one area. The reforms of the non-banking financial sector, negotiated with the IMF, are comparable to the actions implemented by the countries in the region. For example, the National Bank of Ukraine has taken over the supervision of non-banking institutions and insurance since July 2020. However, it is important to ensure a differentiated level of supervision of the two sectors: banking and non-banking. The risks in the activity of non-banking lending organisations are different from those of banks, therefore, it is recommended to apply different principles of supervision and prudential measures. Moreover, non-banking lending organisations do not have the right to take deposits from citizens, as banks do, and this justifies the application of a different supervisory regime. The fees charged by banks for online transactions remain high and non-transparent, and this does not help encourage the use of electronic payments by citizens. The Government, together with the NBM, could make further efforts to improve the situation in the field, especially in this period of social distancing caused by COVID-19.

Although both development partners and national experts continue to emphasize the importance of actions that would increase the independence of the National Bank, some initiatives of political actors seek to diminish it. For example, at the initiative of the President of the Republic of Moldova, the Parliament approved a [Law](#) that will allow reallocation of NBM profit to partially cover state debt, created as a result of the 2014 "banking fraud". Currently, only four out of five positions are filled, two of whom have their mandate already expired.

PRIORITIES

The financial system and financial services are not yet fully made use of in the Republic of Moldova. Greater effort is needed to boost the capital market, the insurance market and the private pension system.

1. The takeover by the NBM, including the supervision of the capital market, together with the takeover of the supervision of non-banking loans and insurance from NFMC.
2. The appointment of competent vice-governors to lead the NBM - the lack of a functional management affects the day-to-day activity of the institution and does not ensure its effective independence.
3. Maintaining a differentiated level of supervision of the two sectors: banking and non-banking (non-banking lending organisations). Supervisory mechanisms must be linked to the risks specific to each sector.
4. Transparency and reduction of fees for the use of electronic payments. At present, they remain high and do not contribute to the increased use of financial services. For the first time (since the data was published), the number of cash withdrawals at ATMs decreased by 5.5% (1st quarter of 2020 compared to 1st quarter of 2019). So now is the right time to lower fees, further encouraging cashless transactions.

PUBLIC PROCUREMENT

PROGRESS

During the reference period, the Law on procurement in the energy, water, transport and postal services sectors was approved, a document that will regulate in more detail the procedure of awarding sectoral procurement contracts in these important areas for the security of the Republic of Moldova. At the same time, the adoption of the respective Law was one of the conditions for the disbursement of the second tranche of the macro-financial assistance program.

The Ministry of Finance has approved the standard form of the Single European Procurement Document (SEPD). SEPD is a statement on the economic operator's own responsibility, confirming that he / she fulfils the qualification and selection criteria specified by the contracting authority. The approval of this instrument should facilitate the participation of economic operators in procurement and reduce administrative burdens for contracting authorities. At the same time, the Government adopted the Regulation on the procurement of goods, works and services at the state-owned enterprise. Thus, for the purchases made from the Budget, the state enterprises will apply Law no. 131/2015 on public procurement.

Contracting authorities have started to publish more procurement notices in the Journal of the European Union to ensure more transparency, fairness and competition. In July 2020, the Chisinau City Hall announced that it would publish in the official gazette the announcement on the acquisition of 100 buses for the capital of the Republic of Moldova.

CONSTRAINTS

The law of "de-offshorisation" was voted by Parliament only in the first reading. The purpose of the law was to prohibit the participation in public procurement of companies residing in "offshore" areas. The adoption of this legislation would have increased the degree of transparency and reduced tax evasion. The last purchase of buses in Chisinau provoked heated debates, after it was found out that the economic agent who won the tender resided in such a jurisdiction.

The search system in the MTender State Register of Public Procurement is a complicated one. This greatly complicates access to information of public interest both for citizens potentially interested in certain public procurements and for civil society which monitors and analyses in detail the process of public money spending. At the same time, the current platform does not allow the generation of reports containing the main indicators of the purchases made. The regulation adopted by the Government for state-owned enterprises does not stipulate the obligation to use the MTender electronic platform (only the possibility). Given that, since 2018, the use of the platform has become mandatory for contracting authorities, the exception for state-owned enterprises does not seem to be justified.

No progress was registered in centralising public procurement, although one of the Government's objectives is to reduce the number of contracting authorities to reduce excessive fragmentation and achieve economies of scale, including to reduce errors made by public procurement authorities.

The national public procurement system is a complex area and, without additional measures to ensure transparency (including by simplifying access to information) and increasing the efficiency of the procurement system, it will be difficult to strengthen citizens' and business confidence in fairness of the entire process.

PRIORITIES

1. Implement actions that would lead to the centralisation of public procurement and reduce the number of contracting authorities - according to experts, would allow better prices, but also a simpler and more efficient organisation of procurement procedures
2. Adopt in second reading the draft law on de-offshorisation, so that companies that do not comply with the highest standards of governance and transparency cannot participate in public procurement.
3. Improve the MTender electronic system - simplify the use of the search engine and introduce the possibility to generate public procurement reports.
4. Oblige the state-owned enterprises to use the electronic platform.

COMPETITION

PROGRESS

At the end of February 2020, the Parliament adopted amendments to several normative acts, including the Competition Law no. 183/2012, by which the Competition Council is to present, until June 1 of the year following the reporting year, the Annual Activity Report of the Council, preceded by the approval of the document by the Council, and subsequently published on the institution's website. This change raises the level of accountability and transparency of the Competition Council in front of the Parliament.

Two other initiatives were registered in the Parliament to complete the provisions of Law no. 183/2012 regarding the manner of conducting the evaluation of the performance of the Competition Council and the manner of investigating the alleged cases of abuse on the media market in the Republic of Moldova - in particular, those targeting the advertising market.

In August 2020, the Competition Council sanctioned with a fine of 1.85 million MDL an advertising operator for the abuse of a dominant position, applied on the market of advertising services. The investigation of this case had been initiated in 2018, and the conclusions of the Competition Council are that the second operator, which was accused of concluding an anti-competitive cartel agreement with the first operator, in fact, did not coordinate its actions with the first. The decision of the Competition Council targeted two actors of the advertising market, which were supposed to be affiliated, through intermediaries, to Vladimir Plahotniuc and Igor Dodon, respectively.

For 2019, the Competition Council received 300 reports on the provision of support measures from central public authorities and local public authorities. Their number has increased almost three times compared to 2015, when the provisions related to the reporting to the Competition Council of state aid came into force. At the end of 2019, the Competition Council drafted the Regulation on minimum aid for evaluation in accordance with EU law.

CONSTRAINTS

The Competition Council did not make public, by mid-September 2020, the activity reports, including those related to the implementation of the National Strategy on Competition and State Aid (NSCSA) for the years 2017-2020, which makes it difficult to assess and analyse in detail of the activities of the authority concerned.

At the same time, in the context of the pandemic caused by COVID-19, there was no prompt reaction from the Competition Council to a number of phenomena related to the unjustified increase in prices for some products in pharmacies and other medical and equipment distribution networks.

Although the Competition Council made public its findings on the petroleum products market in the context of changes in the international markets due to the COVID-19 pandemic, this area was alternatively investigated, and the suggestions in the analysis lead to the conclusion that, compared to world fuel prices in the Republic of Moldova, for one litre of fuel, about 3 MDL is paid as a net profit of the economic agents in the field, compared to 1 MDL before the decrease of prices.

PRIORITIES

1. Publication by the Competition Council, in due time, of the activity reports, as well as those of the implementation of the policies related to the monitoring of the state aid, but also to the implementation of NSCSA for the years 2017-2020.
2. Assess the impact of the implementation of NSCSA and, based on the conclusions made, develop and promote a new strategic planning document in the field of competition and state aid.
3. Strengthen the capacity of the Competition Council to conduct relevant market analyses in priority areas, including those related to the pharmaceutical, audio-visual, petroleum products, service delivery to final consumers (electricity, transport, telecommunications, banking).
4. Initiation of actions to recover illegal State aid, provided by central or local public authorities in areas where there is a market, including a potential one, open to competition.
5. Implement the ex-ante verification mechanism of the draft normative acts of the central and local public authorities from the competition perspective.
6. Gradual transposition of the provisions of Directive 2019/1 of the European Parliament and of the Council to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market

5. TITLE VI - FINANCIAL ASSISTANCE, ANTIFRAUD AND CONTROL PROVISIONS

CONTEXT

The European Union remains the main development partner of the Republic of Moldova. The online platform dedicated to EU assistance for the Republic of Moldova was launched and updated - www.EU4Moldova.md. The EU has diversified its assistance to the Republic of Moldova by directing more funds to support various actors of change - in particular, independent media, local authorities (EU for Cahul, EU for Ungheni), civil society, local communities, small and medium size enterprises, including in rural areas (EU for Rural Moldova). On the other hand, the Government has made efforts at the national level to increase the efficiency of the coordination and management mechanism of external assistance, created the Office for the Management of External Assistance Programmes and initiated consultations on Moldova's participation in post-2020 EU cross-border programmes. In turn, the Ministry of Finance will continue to provide regular updates to the online external assistance management platform www.amp.gov.md.

During the reference period, the EU resumed financial assistance, providing 53.65 million EUR in direct budget support and another 60 million EUR out of the 100 million planned as macro-financial assistance. In parallel with this support, the principle of strict conditionality has been consistently applied. However, the Republic of Moldova missed the last tranche of 40 million EUR in macro-financial assistance, due to the non-fulfilment of all ten conditions within the validity of the MoU and the Credit and Grant Agreements with the EU (expired on July 18, 2020).

In response to the COVID-19 crisis, under the "Team Europe" approach, the EU institutions mobilised more funds to support the Republic of Moldova. The European Commission identified and initiated a reorientation of more than 87 million EUR to support measures to mitigate the socio-economic consequences of the pandemic. In addition, the EU has allocated around 140 million EUR in emergency assistance to Eastern Partnership countries, including the Republic of Moldova. Most of the reallocated assistance supports the recovery of the economy, severely affected by COVID-19, by financing Small and Medium-sized Enterprises, and supporting projects in the fields of health, education, civil society, local and community development. The Republic of Moldova could also benefit from support from the 700 million EUR targeted to SMEs, programmed by the EU in partnership with the EIB and the EBRD.

Another 100 million EUR as EU anti-crisis macro-financial assistance (Omnibus) will be transferred to the Republic of Moldova by next summer. The first 50 million EUR is allocated unconditionally. The second tranche of 50 million EUR will be disbursed once all six technical conditions set out in the MoU have been met, which aim at: (1) public finance management, in particular, ensuring a transparent and efficient public procurement process in the health sector, (2) reform of the Supreme Council of Magistracy, (3) increase the efficiency of the National Integrity Authority in terms of declaring assets and conflicts of interest, (4) revising the Strategy for the recovery of criminal assets resulting from banking fraud, (5) improve the business framework, by adopting the new Customs Code and (6) improving measures to fight cigarette and alcohol smuggling, including by harsher sanctions.

EU-Moldova cooperation in the field of anti-fraud continued on the basis of cooperation agreements between the NAC, the Customs Service and the Court of Auditors with the European Anti-Fraud Office (OLAF). The NAC, as the main liaison with OLAF, provided the necessary exchange of information and approaches with the EU institutions on the cases of fraud or other irregularities in the process of implementation of European funds.

The activity of the National Integrity Authority (NIA) and the Agency for the Recovery of Criminal Assets (ARCA) was strengthened compared to the first half of 2019. However, both NIA and ARCA continue to face a low degree of efficiency in terms of the results of their activity. The biggest challenge in NIA's activity is the extended control of assets and conflicts of interest, formally held by persons affiliated to the subjects of the declaration and evaluation of assets at the real market price. ARCA's work also needs to be strengthened through the adoption of a National Strategy on the Effective Recovery of Criminal Assets.

The process of investigating the banking fraud does not have significant developments, particularly in the area of criminal prosecution and sectioning of all persons involved in fraud. The process of recovering the financial means stolen from the banking system also remains difficult. National authorities, in particular, the General Prosecutor's Office is to adopt several intervention instruments to strengthen international cooperation in the process of investigation, identification and recovery of criminal assets - especially those outside the Republic of Moldova.

FINANCIAL ASSISTANCE

PROGRESE

The EU has resumed allocations under the Direct Budget Support Programme planned for the Republic of Moldova. By October 2019, the European Union transferred a total of 53.65 million EUR: (1) 14.54 million EUR to support the implementation of DCFTA, the vocational education and training programme and the implementation of visa-free regime conditions with the EU; (2) 14.34 million EUR to support the reform of the energy sector, the police and the public finance sector; (3) 24.85 million EUR to support agriculture and rural development (ENPARD) and a new tranche to support police reform. With the resumption of external assistance in July 2019, i.e. the fulfilment of 18 of the 28 conditions set out in the EU Memorandum of Understanding of September 2017, the European Commission has allocated 60 million EUR in macro-financial assistance out of the planned 100 million EUR. Out of those, 40 million EUR were preferential credit and 20 million EUR - grants. The disbursement of the second tranche of 30 million EUR was further conditioned by a set of eight general requirements, announced by the European Union in February 2020. A new EU Macro-Financial Assistance Programme of at least 100 million EUR could be negotiated with the European Union in addition to the new 558 million USD Economic Programme with the International Monetary Fund, which could be concluded by the end of 2020.

In response to the COVID-19 crisis, the EU mobilised a set of funds for the Republic of Moldova under the "Team Europe" approach. The EU has identified and will reorient, by the end of 2020, more than 87 million EUR in emergency aid under the bilateral envelope. These funds complement the 140 million EUR planned by the European Commission for the Eastern Partnership countries, including the Republic of Moldova, namely: (1) 30 million EUR for the health system, through the World Health Organization (WHO), (2) 98.7 million EUR for SMEs and individual entrepreneurs, and (c) 11.3 million EUR to support of more than 190 initiatives of civil society organisations. The Republic of Moldova could also benefit from support of 700 million EUR targeted at SMEs, programmed by the EU in partnership with the EIB and the EBRD. Another 100 million EUR in EU anti-crisis macro-financial assistance (Omnibus) is scheduled in accordance with the Credit Agreement and Memorandum of Understanding (MoU) concluded in July 2020 and ratified by Parliament on 10 September 2020. The first tranche of 50 million EUR is to be allocated as soon as possible. The second tranche of 50 million EUR will be transferred, once all six technical conditions set out in the Memorandum of Understanding with the EU have been met.

The Government approved regulations to increase the efficiency of the coordination mechanism and management of external assistance by the Ministry of Finance, by taking over the coordination of TAIEX and TWINNING programmes from the State Chancellery. The Public Institution Office for the Management of External Assistance Programmes was created. Consultations were initiated on the participation of the Republic of Moldova in three post-2020 EU cross-border cooperation programmes, namely, the Romania-Moldova Bilateral Joint Operational Programme, the Black Sea Basin Joint Operational Programme and the Danube Transnational Programme.

CONSTRAINTS

The main constraint of the reference period is the failure to receive the third tranche of 40 million EUR of the EU macro-financial assistance agreed in 2017, as a result of the non-fulfilment of all ten related technical actions and the expiry of the MoU, Credit and grant agreements with the EU on 18 July 2020. The main reasons for not fully making use of EU assistance were the drawbacks allowed in the functioning of democratic institutions, the rule of law and in the field of human rights, particularly in 2018, and the lack of progress in the investigation of banking fraud and the recovery of related criminal assets.

The process of transferring competences of coordination of external assistance from the State Chancellery to the Ministry of Finance, initiated in 2018, has generated several postponements in the process of coordinating external assistance at national level. Although the online external assistance platform (<http://amp.gov.md/>) works, it is not updated. Namely, there are no reports on the coordination of external assistance in the Republic of Moldova for the years 2017, 2018 and 2019.

PRIORITIES

1. Carry out the necessary actions to make full use of EU emergency macro-financial assistance (Omnibus) and initiate discussions with the European Commission on the new EU macro-financial assistance programme complementary to the new economic programme with the IMF.
2. The principle of strict conditionality for the provision of EU assistance is to be strengthened by identifying more targeted priority actions aimed at reforming the crucial elements of the system and supporting the change and independence of state institutions, capable of ensuring a balance of powers.

ANTIFRAUD AND CONTROL PROVISIONS

PROGRESS

As a main point of contact with the European Anti-Fraud Office (OLAF), NAC ensured the exchange of information with the EU institutions on the cases of fraud or other irregularities in the process of management on EU funds. During the reference period, NAC carried out a strategic analysis of the management of external funds and nine operational analyses (2019 - 2, quarter I & II of 2020 - 7) on investigating the illicit actions of certain decision makers in the management of external assistance, a criminal case being initiated (implementation of the project "CBC RUR Waste" - waste management in Criuleni district).

During 2019, the National Integrity Authority (NIA) issued 94 decisions with findings, most of which concern cases of conflicts of interest and incompatibilities. The integrity inspectors investigated 133 misdemeanour cases and issued 100 minutes of committed misdemeanours. In the first half of 2020, 80 decisions with findings were issued, including in respect of two MPs. The online E-integrity system has been strengthened, with 696,634 declarations available, including 65,806 declarations submitted in 2020.

At the end of 2019, the staff of the Agency for the Recovery of Criminal Assets (ARCA) was supplemented with 17 units. During 2019, ARCA was involved in the enforcement of 227 delegations regarding 554 subjects, ordered in 191 criminal cases. ARCA provides data exchange with EU institutions and Member States through the EUROPOL Inter-Agency Camden Debt Recovery Network (CARIN) and through Europol's SIENA security channel. As a result of ARCA's parallel financial investigations, by the end of 2019, 803 goods (assets) totalling over 2.5 billion MDL (approx. 130 million EUR) had been frozen due to the seizure. However, of these, only over 16 million MDL (approx. 800,000 EUR) or only 0.6% were recovered. In the first half of 2020, over one billion MDL (approximately 51 million EUR) were frozen. The Regulation on the Evaluation, Administration and Recovery of Criminal (Seized) Assets was amended in June 2020 to increase the efficiency of the criminal assets recovery system as well as the management capacities of seized assets. The Parliament approved and submitted to the General Prosecutor's Office the reports of the commissions of inquiry to reveal the circumstances of the "banking fraud" and those concerning the verification of the legality of the privatisation or concession of several state-owned enterprises.

CONSTRAINTS

Only 16 integrity inspectors, out of the 43 planned, were hired by NIA. This remains an important constraint in ensuring more effective control of the subjects of the declaration. Another challenge in NIA's activity is the low efficiency in terms of (1) the extended control of assets and conflicts of interest, formally held by persons affiliated to the subjects of the declaration and (2) the evaluation of assets at the real market price.

Although there have been some developments in the process of investigating the "banking fraud", after almost six years, there is no finality in this case. So far, 33 related criminal cases have been initiated, with 11 individuals and legal entities being recognised as suspects, and 42 people have been charged. In September 2020, the Prosecutor General announced the identification of Vladimir Plahotniuc as the actual beneficiary of the fraud. At the same time, the case against Ilan Shor has been delayed in the courts for almost three years. Another challenge is the slow, difficult and controversial process of recovering criminal assets. The strategy of recovery of financial means stolen from the banking system of the Republic of Moldova, adopted in June 2018, proved to be ineffective. The General Prosecutor's Office is to review its strategy for recovering the criminal assets, such a condition being expressly included in the MoU on the provision of EU macro-financial assistance (Omnibus).

ARBI's activity needs to be strengthened in terms of identification and effective recovery of criminal assets, especially those outside of the Republic of Moldova. The draft National Strategy for the Prevention and Fight against of Money Laundering and Terrorism Financing for years 2020-2024 provides for the increasing the efficiency of the exchange of information on the recovery of assets with other authorities abroad, including on the basis of concluded agreements. In this context, by mid-2022, the authorities intend to adopt a National Strategy for the Recovery of Criminal Assets.

PRIORITIES

1. Increase the efficiency of NIA by (1) filling the vacancies of integrity inspectors; (2) extending the powers of integrity inspectors to allow independent asset valuations; (3) extension of the scope of control of the affiliated persons; (4) obliging the reporting subjects to indicate the real market price of the assets.
2. Urgent adoption of a new National Strategy for the Recovery of Criminal Property in 2021.
3. Review the Strategy of recovery of funds retrieved from the banks as a result of "banking fraud", by strengthening the asset recovery mechanism, presenting regular progress reports and strengthening international cooperation on the transnational investigation of the banking fraud, including by supporting joint investigation teams and of EUROJUST



Address: București 90 Street, of. 20
mun. Chișinău, MD-2001
Republic of Moldova

Tel.: + 373 22 788 989

E-mail: info@ipre.md

Web: www.ipre.md