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Implementation of the European Neighbourhood Policy in Republic of Moldova Progress in 2012 and recommendations for action

Accompanying the document

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

European Neighbourhood Policy: Working towards a Stronger Partnership

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This report assesses the overall progress in the implementation of the EU-Moldova European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012. Developments outside this period are also considered when relevant. It is not a general review of the political and economic situation in the Republic of Moldova (hereafter “Moldova”). For information on regional and multilateral sector processes, please refer to the Eastern Partnership report. The ENP Action Plan for Moldova was adopted on 22 February 2005. Preparations on its successor instrument, the EU-Moldova Association Agenda, were initiated in December 2012.

The EU-Moldova political dialogue continued to deepen in 2012 and contacts between high-level officials intensified. In April President Timofti paid a visit to Brussels, which European Commission President Barroso reciprocated in November. In February, Commissioner De Gucht opened negotiations in Chisinau on establishing a Deep and Comprehensive Free Trade Area (DCFTA) as part of the EU-Moldova Association Agreement. In June, Commissioner Füle took part in the informal Eastern Partnership dialogue organised by Moldova. Commissioner Malmström met three times with the Moldovan Prime Minister, marking the importance of the visa liberalisation process. New EU-Moldova agreements were signed in the areas of visa facilitation, aviation, agriculture, civil protection and CSDP cooperation and progress was achieved on visa liberalisation.

The election of President Timofti in March after a stalemate since September 2009 paved the way for gradual political stabilisation and allowed the Moldovan authorities to concentrate on structural reforms. In February 2013 and March, however, a renewal of tensions within the ruling, which led to the downfall of the Government, coalition called political stabilisation into question; lasting political uncertainty or the delays induced by anticipated parliamentary elections could undermine the reform and transformation process underway since 2009.

In 2012, ambitious reforms in the justice and the law-enforcement systems and as regards the fight against corruption started to be implemented, with EU financial support. These first steps revealed the complexity of the challenges to be addressed, in particular the need to fight corruption at all levels of the State and society. Access to justice continued to improve. References to the new law on freedom of expression appeared in case law, setting encouraging precedents. An anti-discrimination law ('law on ensuring equality') was adopted, which the Moldovan government committed to implement in a comprehensive manner; this remains to be demonstrated in 2013. In November, assessment by the European Commission of the implementation of the second-phase benchmarks of the visa liberalisation action plan was launched and will continue throughout 2013. At the same time, the withdrawal of the broadcasting license of the NIT television channel by the Audiovisual Coordination Council, and the opaque judicial process in this case sent negative signals regarding the independence of the Audiovisual Coordination Council and the judiciary. The introduction of a ban on the Communist

symbols, which were still used by the largest opposition party, undermined the inclusiveness of the reform process.

Reform of the public administration continued in the background, in particular with the adoption in April of a decentralisation strategy, as well as reforms in the fields of health and education. Moldova re-affirmed its commitment to structural improvements in the energy sector, while receiving from the Ministerial Council of the Energy Community more time to increase the competitiveness of its gas market. In trade-related areas, implementation of the European Commission's recommendations identified in the run-up to DCFTA negotiations progressed well enough to allow for the negotiations to start in February.

Moldova retained macroeconomic stability in 2012 thanks to prudent fiscal and monetary policies, irrespective of the negative shocks (weaker export demand, severe drought) that brought economic growth to a standstill. External vulnerabilities remained high and the current account deficit and gross external debt are at elevated levels. Implementation of the IMF programme and the central bank's policy for building up international reserves mitigated these risks. Structural reforms advanced, although at a slower pace due to the negative external environment. These should be accelerated to improve the investment climate, boost efficiency and gradually change the current remittances-driven economic model. Privatisation of large-scale companies – another of the Action Plan's priorities – came to a halt. Despite some progress with addressing the issue of insufficient protection of property rights, legislative loopholes remained and ownership problems in the banking sector re-emerged, highlighting the necessity for resolute action.

With regard to the Transnistrian region (hereafter “Transnistria”), in 2012, the Moldovan authorities significantly stepped up their contacts with the new leadership in Tiraspol, against the background of a re-vitalised ‘5+2’ settlement process. This led to a breakthrough in some outstanding issues: freight train traffic through the Transnistrian region was re-opened in April, beneficial mainly to the economic agents based in the region. At experts’ level, contacts allowed to study possible approaches to remove obstacles to freedom of movement across the Nistru river, improve the mechanism of recognition of Transnistrian university diplomas and ensure proper functioning of Latin-script Moldovan schools in Transnistria. However, lack of a shared vision on the basic parameters for a comprehensive settlement held up progress on all issues, and political and security issues were not addressed. At the same time, moves related to the re-equipment of the foreign military contingent quartered in Moldova and, more recently, threats of discrimination by the Transnistrian de facto authorities of Moldovan civil servants residing in Transnistria threatened, by reviving the risk of tensions on the ground, to divert the sides away from mutual engagement. In December 2012, the Dublin OSCE (Organisation for the Security and Cooperation in Europe) Ministerial Council succeeded in issuing a "Statement on the negotiations on the Transnistrian settlement process in the '5+2' format", for the first time since 2002.

Within the Eastern Partnership, Moldova organised the first informal Eastern Partnership dialogue in June and the second Conference of Regional and Local Authorities in

September. The negotiations for an Association Agreement progressed smoothly, justifying expectations that they could be finalised in 2013.

In 2012, Moldova addressed most of the key recommendations contained in the last year's ENP Progress Report. It stepped up efforts to implement judicial and law enforcement reform, engaged in dialogue with Tiraspol, continued reforms in the areas of social assistance, health and education, energy, competition and state aid as well as regulatory approximation to the EU *acquis*. It finalised the remaining steps under the first phase of the visa liberalisation action plan, and stepped up institutional reform of the aviation sector. As a result of progress in reforms for deep democracy and respect of human rights, Moldova benefitted in 2012 from an additional external assistance allocation of EUR 28 million under the Eastern Partnership Integration and Cooperation programme (EaPIC). Progress is still needed on the remaining key recommendations. On the basis of this year's report and with a view to sustained implementation of the EU-Moldova ENP Action Plan and its successor instrument in 2013¹, Moldova is invited to:

- Continue to vigorously advance reforms in the justice and law enforcement systems, through implementation of the justice sector reform strategy, and by continuing the reform of the Ministry of Interior and other relevant bodies.
- Intensify the fight against corruption in particular by reforming the prosecution system and the judiciary, and by ensuring a fully functioning National Anti-corruption Centre.
- Continue to improve and further simplify customs procedures with a view to facilitating foreign trade and reducing the risk of corruption.
- Prevent the resurgence of institutional deadlocks by revising its constitution; this process should be conducted in an inclusive manner.
- Ensure the full implementation of the National Human Rights Action Plan; and ensure the full application of the Antidiscrimination Law including to cases of discrimination on the basis of sexual orientation through, *inter alia*, secondary legislation in line with international obligations.
- Engage pro-actively with the Transnistrian side in view of promoting an enticing, mutually acceptable vision for a common future, and agreeing accordingly the basic parameters for a settlement.
- Ensure the full and effective independence of the Audiovisual Coordination Council;
- Continue to advance dynamically the implementation of the second phase of the visa liberalisation action plan;

¹ The EU-Moldova ENP Action Plan should be replaced by the Association Agenda in the course of 2013.

- Continue with sector reforms and regulatory approximation to the EU *acquis* in trade and trade-related areas (as identified in the preparation for the DCFTA), in parallel to the ongoing DCFTA negotiations; implement in particular the law on State aid; and implement energy sector reform in line with the Energy Community commitments.
- Step up the reform of the public administration and start implementing the decentralisation strategy, with a view to strengthening institutional capacity, efficient use of public resources and optimization of local administration.
- Continue the privatisation process, in particular for remaining large state-owned enterprises.
- Take steps to strengthen shareholder transparency in the banking sector.
- Take further steps to improve the business environment, including treatment of and registration procedures for foreign investors, and countering the grey economy.

2. POLITICAL DIALOGUE AND REFORM

Deep and sustainable democracy

In March 2012, the Constitutional Court validated the election of Nicolae Timofti as **President of the Republic**, ending a long period of political and constitutional deadlock and paving the way for political stabilisation and large-scale reforms. However, in February 2013 the battle royal that broke out into the open between the members of the ruling coalition called into question the benefits achieved during 2012.

In the Autonomous Territorial Unit of **Gagauzia**, no serious violations were registered during the legislative elections of September 2012, according to the chairwoman of the Gagauz Central Electoral Commission. Neither the Council of Europe nor the OSCE had sent international observer missions.

In October 2012, a ban on the use in Moldova of the **Communist symbols** entered into force, an issue on which the Venice Commission and the OSCE Office for Democratic Institutions and Human Rights adopted in March 2013 a joint *amicus curiae* brief at Moldova's request. VC/ODIHR expressed the view that the blanket prohibition including the automatic cessation without judicial review of the activities of the Party of Communists in case of repeat violations were clearly contrary to international standards.

With the support of a joint EU and Council of Europe project, the Central Electoral Commission worked to reform the system of financing of **political parties** and prepared a draft law on the subject. However, a competing draft law on political parties and electoral campaign financing was registered in Parliament.

In line with OSCE/ODIHR (Office for Democratic Institutions and Human Rights) recommendations, the **electronic voter register** was launched and further extended during the local by-elections of November 2012.

The right of **LGBT** persons to **freedom of assembly** and other fundamental rights remained an issue. While Moldovan Government showed increasing commitment to protect the rights of LGBT persons, and the May 2012 Gay Pride conference in Chisinau could be peacefully conducted, the resilience of homophobic sentiments in some parts of Moldovan society remained a concern. The European Court of Human Rights found Moldova in violation of Convention provisions as a result of bans on LGBT public events. Homophobic decisions by local authorities in Belts and some other municipalities, prohibiting the “aggressive propaganda of non-traditional sexual orientations” raised similar concerns. The government took steps to have these decisions revoked, repealed, or overturned through due legal processes, which in some cases are still going on.

In April, the Audiovisual Coordination Council withdrew the broadcasting license of the opposition television channel NIT for alleged failure to comply with the **principle of pluralism**. The appeal of the NIT channel was postponed several times until it was dismissed by the Chisinau Court of Appeal in February 2013. Both the withdrawal of the license as well as the lengthy court procedure raised questions as to the independence of the Audiovisual Coordination Council and of the judiciary.

The new law on **freedom of expression** started to be used by the judiciary, which thus caught up with last year’s important legislative improvements. Rules for reporting on election campaigning in the media were amended. The journalist code of ethics, developed by the self-regulating Press Council, entered into force. No progress was made however in the reform of the broadcasting code, and of the public broadcaster.

While little progress was recorded with regard to the investigation of the riots following the presidential elections in April 2009, Moldova embarked on a major review of the criminal procedure code and other reforms, such as a review of the law on ombudsman and the civil code, to address most of the structural **torture and ill-treatment** related problems identified by the Council of Europe’s Committee for the Prevention of Torture. The number of complaints for ill-treatment continued to rise during the early months of 2012. While this rise is not an absolute indicator of an increase in violence in police custody, the continuing rise of reports of abuse in detention is a serious cause for concern.

Considerable efforts have been made to reform the **justice sector**, although the General Prosecutor’s Office is yet to undergo serious reform. A national action plan to implement the justice sector reform strategy 2011-2016 was adopted in February. The EU committed EUR 70 million to support this fundamental reform. The Ministry of Justice established a permanent mechanism to coordinate and monitor its implementation. In July, the Parliament adopted a first package of laws (amending the laws on courts organisation, on judges’ status, on the Supreme Council of Magistrates, on the Supreme Court of Justice, and on judges’ selection and career). It also amended the criminal and the civil procedure codes in order to increase the efficiency and transparency of the litigation process.

Some progress was achieved in the field of **anti-corruption**, despite some political bickering. A comprehensive anti-corruption strategy and a two-year action plan (2012-

2013) were adopted by the Centre for Combating Economic Crimes and Corruption (CCECC), in consultation with civil society. Although a comprehensive reform strategy document has not yet been adopted, legislative amendments aligned Moldova's legal framework with the main international instruments. In October, the CCECC was reformed into a National Anti-Corruption Centre, relieved from fighting economic crime and directly subordinated to Parliament. Another important step was the creation of the National Integrity Commission for civil servants. In March, the Parliament abolished the Economic Court of Appeal and significantly reduced the competences of first-instance Economic Courts, widely perceived as being prone to corruption.

The **Ministry of Interior** initiated a deep institutional reform - including the absorption and transformation of the Border Police, vigorously pursued by a revamped management. A Reform Centre and a Strategic Advisory Council were established to supervise this complex reform. Key legislation such as draft laws on police, on carabinieri troops, on the use of firearms, and on the containment of assemblies awaits adoption.

Other human rights and fundamental freedoms

In May 2012, the third round of the EU-Moldova **human rights** dialogue confirmed Moldova's political will to foster human rights and the rule of law; as a transparency measure, Moldova agreed to invite Member States and civil society representatives as observers. In March, it accepted most of the remaining 17 recommendations (out of 122) of its first UN Universal Periodic Review that it had not accepted already in 2011. It reworked accordingly its National Human Rights Action Plan of 2011, incorporating also comments from the international community; these amendments await approval by the government before being referred to Parliament. In August, a working group was established to match priorities and funding possibilities to ensure the Action Plan's effective implementation.

Access to justice was substantially improved over the reporting period, as the system of free legal aid became applicable to civil law cases, in addition to criminal law cases.

In May, after five years of efforts, the **anti-discrimination law** ('law on ensuring equality') was adopted. The Moldovan Government gave assurances that the law was comprehensive and in particular addressed discrimination against LGBT persons, as required by Moldova's international obligations. The comprehensiveness of the Law will have to be assessed on the basis of implementing legislation and guidelines yet to be adopted. Training of judges and law enforcement officers was started. The fact that the Equality Council to be established under the law would not be given sanctioning powers raised concerns across civil society and the international community. There were no new developments regarding the ratification of Protocol 12 to the ECHR.

In August, the law on social inclusion of **persons with disabilities** was published. It recognised that persons with disabilities enjoy equal legal capacity and introduced requirements to end plenary guardianship ("substituted decision-making") arrangements, and to provide reasonable accommodation.

In April 2012, amendments to the law on **HIV/AIDS** significantly improved non-discrimination guarantees and strengthened privacy, confidentiality and data protection guarantees. Residence bans for persons with HIV/AIDS as well HIV/AIDS testing in the context of immigration or application for a residence permit, were abolished.

Amendments to the national action plan in support of **Roma inclusion** established a network of community mediators to assist Roma people in interfacing with public services. As from January 2013, fifteen Roma community mediators, funded from the State budget, will be dispatched to the regions.

In February, amendments to the law on **religious communities** were published. They left open a number of issues, including the requirement that religious communities are established by citizens of Moldova and a provision recognising the ‘particular role’ of the Orthodox Church.

As regards domestic violence - often linked with **gender discrimination** -, more protection orders were issued, but the low level of enforcement persisted. They were rarely issued within 24 hours as required by law.

The Lanzarote Convention on Prevention of Abuse and Sexual Exploitation of **children** was ratified; national legislation is awaiting adjustment.

In June 2012, the Parliament outvoted a presidential veto on the introduction of mandatory **chemical castration** for paedophile sex offenders. In this connection, the Government ordered that other domestic law be brought into compliance with the new law, which may mean amendments eroding Moldova’s Patients’ Right Act, which requires informed consent in the carrying out of any intervention in the health field.

A law on integration of **migrants and refugees** entered into force in July 2012. The provisions of the law, while satisfactory as regards refugees and other persons enjoying one form of protection, appear to be restrictive when it comes to access by foreigners to their social-economic rights. Moldova ratified the two UN **statelessness** Conventions. The protection standards contained in the new version of the law on the legal status of foreigners are high and constitute a model for the region and beyond.

Other Governance related issues

With support from the World Bank, the Government has embarked on an ambitious public administration reform program, aimed at strengthening institutional capacity of the public administration for better policymaking, policy implementation, and efficient use of public resources. It further extended the deadlines for implementing the central **public service reform** strategy, approved in 2006, for two more years (2012-2013). The **decentralisation** strategy adopted in April 2012 aims at providing more autonomy, powers and capabilities to local authorities, on the basis of fiscal decentralisation; the related action plan for 2012-2015 started to be implemented. Reform of local administration is urgently needed, in view of the relatively high number of local

administration units relative to area and population, but reform makes little headway due to resistance from local and regional governments.

In September 2012, the Parliament approved the **civil society development** strategy for 2012-2015 and the action plan for its implementation. A new unit responsible for cooperation with civil society, including representatives of the Government and civil society, was set up. Regular consultations with civil society continued via the National Participation Council, of which a majority of members are part of the Eastern Partnership Civil Society Forum National Platform. Relations between civil society and many ministries are good, but concerns were raised in relation to others, in particular in the context of the negotiations with the EU on a Deep and Comprehensive Free Trade Area.

Cooperation on foreign and security policy, conflict prevention and crisis management

In 2012 Moldova aligned with 56 out of 62 EU CFSP declarations it was invited to support (63 out of 82 in 2011). Moldova expanded its cooperation with the EU in the area of **security and defence policy**, signing in December an Agreement establishing the framework for its participation in EU crisis management operations, and submitting proposals for contributions to the EUCAP NESTOR (Regional Maritime Capacity Building for the Horn of Africa and the Western Indian Ocean) operation.

Good progress was made as regards cooperation on the **Transnistrian issue**. Five official meetings of the '5+2' forum showed the resilience of the reinstated negotiating process. In the course of 2012 the '5+2' reached agreement on two important documents: "Principles and Procedures for the Conduct of Negotiations" and on a comprehensive agenda for the negotiating process. The bilateral confidence-building expert groups, except the one on demilitarisation and security, worked very actively as compared to previous years and achieved some progress, albeit often limited, in all areas under discussion. New working groups, and a sub-group on human rights, were established. Goods transportation by rail through the Transnistrian region was resumed, including a mechanism for joint customs inspections of cargo. The EU stepped up its financial and technical support to confidence-building from EUR 2 to EUR 12 million in 2012.

Moldova continued to participate constructively in the work of the **EU Border Assistance Mission to Moldova and Ukraine** (EUBAM). With EUBAM support, the customs authorities and border guard service of Moldova continued to enhance their professional capacities, as well as inter-agency cooperation within the country and with Ukraine. EUBAM continued to support the demarcation of the state border with Ukraine, as well as the joint pilot project launched with Ukraine in February 2012, establishing joint control on Ukraine's territory of the "Briceni-Rososhany" border section.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy²

The strong recovery from the 2009 recession came to a halt in 2012, as weakening EU activity and adverse weather conditions affected the economy. Real **GDP** contracted by 0.1% year-on-year in the first three quarters of the year after a 6.8% growth in 2011 as external and domestic demand subsided and investment fell. Feeble EU demand hit merchandise exports and industrial production and the summer drought took its toll on the agricultural sector, where production plummeted by 22% in 2012.

Weakening domestic demand, coupled with lower food prices on global markets, contributed to significant moderation of. Headline inflation bottomed out at 3.7% year-on-year in June, after peaking at 9.2% in August 2011. However, since then rising global commodity prices and the weak harvest in the country have caused inflation to accelerate. The low inflation in the first half of the year and slowing domestic activity prompted the central bank to cut its key policy rate by a cumulative 400 basis points in early 2012 to a record low of 4.5% but this was insufficient to boost the economy.

Irrespective of the weaker-than-expected economic growth, the authorities have retained a cautious **fiscal stance**, trying to stick to the initial ambitious fiscal deficit target. The budget revision in July raised the deficit plan to 1.3% of GDP from the previous 0.9%, also including sizable corrective measures to address fiscal slippages in early 2012 and a weaker economy. The tight fiscal policies should keep public debt under control.

The **current account** deficit remains high, reflecting a weak export base. However, it is likely to contract considerably in 2012 due to lower import demand as domestic activity moderated, weakening exports to the EU market as well as resilient remittances. The current account deficit nearly halved in the first three quarters of 2012. At the same time, its financing has worsened in the first half due to a significant decline of foreign direct investment (FDI), but the central bank's gradual accumulation of foreign exchange reserves as well as good progress with the IMF programme mitigate external vulnerabilities to a large extent.

Social situation, employment and poverty reduction

The unemployment rate is thought to have declined from 6.7% in 2011 to an estimated 5.6% in 2012.

Moldova carried out important reforms on **social protection**, such as the abolishment (since July 2011) of nominal compensations and its replacement with a new cash-benefits system was implemented. A law on social inclusion of disabled persons was approved in March. Moldova developed and delivered new social services for disabled persons

² Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

including mobile teams, personal assistance, and short-break foster care. The Parliament approved a law obliging providers of social services to be accredited every five years.

A **pension reform** launched in 2011, with the support of the EU and the World Bank, was continued in 2012, with the aim of increasing the minimum duration of mandatory contributions and the retirement age for certain categories. This reform should notably help addressing the un-sustainability of the current system that poses a serious risk for the public finances.

Social dialogue was strengthened, with functional sector councils organized in four sectors: construction, agriculture, information technologies, and transport.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Moldova's main trading partner accounting for more than 50% of its trade volume in 2011³. **Bilateral trade** flows increased and during the first eleven months of 2012 amounted to EUR 2.7 billion. EU exports to Moldova consisted mainly of mineral fuels, electrical machinery and equipment. EU imports from Moldova consisted mainly of electrical machinery and equipment, clothing and animal and vegetal fats and oils. Since 2008, exports from Moldova to the EU benefit from the autonomous trade preferences (ATPs) which offer free access to the EU market for nearly all products originating in the Moldova except for certain agricultural products for which limited concessions have been given. ATPs will be automatically replaced by the DCFTA provisions once it enters into force.

Moldova has showed its willingness and readiness to advance in negotiating DCFTA with the EU. The DCFTA negotiations were launched in February 2012 will provide a framework for improving the trade and trade-related environment and further attracting investment to the country, with the objective of strengthening Moldova's economic competitiveness and diversify its export base. Further progress was achieved in implementing the DCFTA-related key recommendations as described below.

A bilateral Agreement on the protection of Geographical Indications for Agricultural Products and Foodstuffs was ratified by Moldova and concluded by the EU in December, and is expected to contribute significantly to the diversification of wine production in Moldova.

Moldova further reduced **technical barriers to trade**: the law on standardisation was amended and the law on accreditation and conformity assessment entered into force. Amendments to the law on metrology were made. A twinning project on accreditation and conformity assessment started in June. This should further advance the progress in this area. A twinning project on standardisation and metrology is expected to start in 2013. In July, Moldova amended the Civil Code and other laws in respect of liability for defective products. A law on the industrial security of hazardous industrial objects was adopted in May.

³ Data for 2012 was not available at the time of writing.

The modernisation of the Moldovan **Customs** Service continued in 2012, with support from EUBAM (EU Border Assistance Mission). Customs revenues form an important part of the government budget. The dependence of the Government on customs revenues for financing its budget constitutes a barrier to simplifying customs procedures, although progress has been made. Moldova has shown tangible achievements as regards facilitation of traffic and trade flows by improving communication towards the travelling public and economic operators, through amending rules and regulations, and promulgating relevant information. Nevertheless, further efforts are needed for the complete implementation of the single window concept in all customs houses. Moldova introduced the concept of *reliable economic agent* and has started to implement the local clearance procedure. Moldova has improved the use of the pre-arrival information exchange system (PAIES) with Ukraine. Key performance indicators such as the detection of customs irregularities and enhanced use of PAIES have led to partial achievement of objectives and expected results of the PAIES project. Despite progress in reforming the Customs Service, businesses reported complicated and costly customs procedures. The risk of corruption at the local level appears to remain high. For **fighting fraud**, Moldova examined the possibility of replacing criminal penalties for smuggling of goods with fines. Given the potential negative impact on investigations and sanctioning of cases involving smuggling of excisable goods, the EU will continue to follow developments in this area closely.

In line with its food safety strategy and the 2012 National Programme for Law Harmonisation, Moldova took further steps to approximate with EU **sanitary and phytosanitary** (SPS) standards. It transposed twelve pieces of EU *acquis* into national legislation. In May, the Parliament adopted a general food safety law which, inter alia, establishes a food safety agency. A law on animal identification and traceability entered into force in January. Moldova continued training SPS experts including with TAIEX support. The Commission approved residue monitoring plans for aquaculture and poultry products, which is a pre-condition for possible future exports of these products.

The World Bank recognised Moldova's progress in working to improve its **business climate** in the areas of insolvency procedures and investor protection. Compared to the previous year, Moldova slightly improved its ranking to 83rd place⁴ (out of 185) in the ease of doing business ranking in the World Bank's 'Doing Business 2013' annual report. Moldovan efforts were also reflected in the Global Competitiveness Report where Moldova went up five places to position 87 out of 144 states assessed. Despite this progress further reforms are still needed *inter alia* in countering the grey economy in the retail sector, and streamlining of the legislation.

In the area of **financial services**, Moldova adopted amendments to 53 legislative acts, including the law on the National Bank. The law on payment services and electronic money was adopted in May. In January, the **banking system** started to apply new accounting standards according to the international financial reporting system. As of

⁴ Comparison was made with the 'Doing Business 2012' ranking which was adjusted for changes in methodology and any revision of data due to corrections. For more information see <http://www.doingbusiness.org>

January 2013, the banks are implementing the IBAN code (international bank account number) to perform cross-border transfers. Non-transparent ownership in the banking sector remains an area of concern and needs to be addressed through legislative reforms to strengthen shareholder transparency. The National Commission for Financial Markets and the National Bank developed and approved a Joint Action Plan for regulation and supervision of the non-banking financial institutions.

Other key areas

Regarding **tax** reform, Moldova put in place a web-portal, including a ‘bar-code’ and an ‘e-statements’ information systems, facilitating interaction between taxpayers and the tax administration. Notwithstanding the measures taken in 2008 to simplify and accelerate VAT refunds and the increase in the budget allocations to that end, foreign and local investors still face difficulties in getting overdue VAT refunds. Further tax reform is needed to ease the investment climate. In the context of gradual harmonisation of national tax policy with the EU tax policy, Moldova increased excise duties for alcoholic beverages and cigarettes

In July, Parliament adopted a new **Competition** Law, which contains provisions on antitrust and mergers, following EU rules closely. The Law on State Aid, meant to bring Moldovan law into line with the EU *acquis*, was adopted by Parliament in June 2012.

In February, the Government approved a Regulation on the registration of works protected by copyright and related rights. To bring the national legal framework into line with the new law on copyright and related rights, legal amendments were adopted in May. The new Regulation on the activity of patent attorneys entered into force in July. In April, Moldova replaced its membership in the Eurasian Patent Organisation with a bilateral cooperation agreement. In April, the twinning project supporting the implementation and enforcement of **intellectual property rights** ended.

Moldova continued implementation of its **public procurement** action plan 2011-2013. The Agency for Public Procurement benefited from an EU-funded twinning project that helped to draft secondary legislation for approximation with EU Directives. As of August 2012 it is mandatory to apply the Common Procurement Vocabulary.

Moldova approved a Strategic Development Programme of the National Bureau of **Statistics** for 2012-14 and started addressing the recommendations from the global assessment of the statistical system carried out in 2012. The Law on the Population Census was adopted; the census itself was postponed from 2012 to 2014. Moldova has started preparations for this census and needs to ensure that sufficient resources are made available. The preliminary results from the 2011 Agricultural Census were disseminated. The Consumer Price Index was improved in line with EU standards; the national classification of economic activities was revised to correspond to the EU’s NACE Rev.2 and is currently being implemented. Moldova improved the methodologies of Labour Market Statistics, the Time Use Survey and Social Statistics.

In June, the law on state control over **enterprise** activity was adopted, listing entities authorised to carry out controls and laying down procedures for them. In September, Moldova adopted a strategy for the development of the SME sector for the period 2012-2020 together with an action plan to implement this strategy for the years 2012-2014. This strategy – which follows on to the recommendations of the SME Policy Assessment – sets out the following key priorities: adjustment of the normative and regulatory framework to match SMEs' needs; improvement of access to finance; development of human capital through promotion of competences and entrepreneurial culture; increasing SMEs' competitiveness and stimulating the innovation spirit; facilitation of SMEs' development in the local regions; and business partnership development.

In January, a **Consumer Protection** Agency was established, replacing the main State Inspectorate for Market Surveillance. Moldova prepared a Strategy for Consumer Protection 2013-2020 which was expected to be adopted by the Government at the beginning of 2013.

Progress has been made in the area of **public internal financial control** (PIFC). The legal and regulatory framework is in place and Moldova, with the aid of EU twinning support, has started the process of implementation. Moldova also launched a communication strategy to support PIFC implementation.

No progress was noted in the areas of **movement of capital and current payments, company law** and **external audit**.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Cooperation between the EU and Moldova further evolved under the **Mobility Partnership**. A number of new initiatives were launched in areas such as consolidation of migration management capacities and diaspora-oriented projects. The extended migration profile is expected to be published in the spring of 2013. The Mobility Partnership High-Level Meeting in November in Brussels took stock of the implementation of the Mobility Partnership and discussed the results of the evaluation exercise carried out in 2012, based on a comprehensive and far-reaching evaluation report.

Moldova made good progress in adopting and implementing **migration and asylum**-related legislation, and in establishing an efficient migration management system. Laws on integration of foreigners, on accession to the Convention on the Status of Stateless Persons and on accession to the Convention on the Reduction of Statelessness entered into force. The Government started to implement a new procedure for the determining the status of stateless persons, following ratification of the UN Statelessness Conventions and subsequent amendments to the legal framework. An important remaining gap in the asylum procedure concerns the lack of travel documents for refugees, as issuing of refugee travel documents was delayed. The Government launched the process of preparing travel documents for refugees, which are, however, expected to be issued only in several months' time.

In the context of the **visa** dialogue, the Commission's Third Report adopted in June concluded that the benchmarks for the first phase (legislative and policy framework) of the Action Plan on Visa Liberalisation (VLAP) were met and that the assessment of the benchmarks under the second phase (implementation) could therefore be launched. The Commission also adopted in August 2012 a Report to the European Parliament and to the Council on possible migratory and security impacts on the EU of future visa liberalisation for Moldova. In November, the Council lent its support to the conclusions of the June report, paving the way for an assessment of Moldova's progress in the second phase of the Action Plan on Visa Liberalisation.

Implementation of the EU-Moldova **visa facilitation and readmission agreements** continued, and was monitored at the meetings of the respective joint committees. In June, amendments to the EU- Moldova visa facilitation agreement were signed, and ratified by Moldova in October.

The Moldovan Border Guard Service (MDBGS), with EUBAM support, continued implementation of reforms aimed at advancing towards the establishment of a law-enforcement agency according to EU standards. Important steps were taken for the implementation of the national strategy and action plan on integrated **border management** for 2011-2013. The new Law on the state border and the Law on border police, as well as amendments to the Code of Offences, entered into force in July. Thus, the legal framework for solid border management aiming to approximate with the Schengen Borders Code (Regulation (EC) No 562/2006) and other relevant EU legislation was put in place.

As a result of the EU-funded project on support for the introduction of biometric passports, the Moldovan authorities issued exclusively biometric passports in line with International Civil Aviation Organisation (ICAO) standards to their citizens (including in the Moldovan embassies and consulates).

Moldova made progress in the fight against **organised crime**. The legislative and policy framework on preventing and fighting organised crime was established. The Law on organised crime was adopted in March (entering into force in September), as well as the Strategy and the accompanying Action Plan for 2011-2016 (approved by the Government in 2011), largely in line with the European and international standards. A Cooperation Agreement between CEPOL (European Police College) and the Academy "Stefan Cel Mare" of the Ministry of Interior was signed in December.

The Centre for **Fighting Trafficking in Human Beings** became fully operational. An updated action plan for 2012-2013 on combating trafficking in human beings was approved in July.

Regarding the **fight against terrorism**, the majority of UN and Council of Europe Conventions have already been ratified and entered into force. In April, the Law on preventing and fighting money laundering and the financing of terrorism was amended to address shortcomings identified in the third MONEYVAL evaluation report and to implement international conventions.

Moldova made progress in the fight against illegal **drugs**. During the April Dialogue on Drugs with Moldova, Azerbaijan, Georgia and Ukraine in Brussels the first evaluation of the drugs strategy and action plan was announced, as well as the development of a new drugs strategy and action plan. In July, Moldova and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) signed a Memorandum of Understanding in the field of combating drug trafficking. Moldova attended the treatment demand indicator expert meeting, and the European Information Network on Drugs and Drug Addiction (Reitox) Academy on monitoring and evaluation of drug policies in Riga in October. Exchange of information on new psychoactive substances also took place.

In August, the National Centre for Personal Data Protection launched the personal data controllers filing register to ensure implementation of the Law on **personal data protection** (entered into force in April), according to which the personal data controllers are obliged to notify the Centre before processing personal data. The Centre began drafting the National Strategy on the protection of personal data for the period 2013-2017.

Eurojust finalised the Evaluation Report on data protection; further institutional steps towards the start of negotiations for a cooperation agreement between Eurojust and Moldova were launched.

As regards **judicial cooperation**, the legislative framework in the area of **mutual legal assistance** is largely in place. In March, Parliament adopted the Law on special investigating activity and, in April, amendments to the criminal procedure code. In December, Moldova ratified the second Additional Protocol to the Council of Europe Convention on Mutual Assistance in Criminal Matters. Regarding civil matters, there were no developments in respect of Moldova's accession to some Hague Conventions, such as those on judicial assistance (1965 Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters) and on child protection (1996 Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in respect of Parental Responsibility and Measures for the Protection of Children).

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND INNOVATION

Progress was made in the road **transport** sector. Moldova started implementing the national road safety strategy 2011-2020 and the Road Sector Programme co-financed by the EU and international financial institutions. Moldova took further steps to bring the railway sector closer to EU legal and regulatory standards. In April, the structure of 'Moldovan Railways' (CFM) was modified to separate infrastructure management from railway operations. However, further reforms in the opening of the market and setting-up of institutional regulatory structure are needed. A substantial increase in revenues from freight traffic was registered in 2012. Freight traffic through the Transnistrian region was restarted in spring 2012, but due to a number of barriers the volume of traffic was limited.

Moldova carried out important reforms in the field of aviation. The Civil Aviation Authority (CAA) was established in May to strengthen aviation safety. The EU-Moldova Common Aviation Area Agreement was signed in June, aiming to gradually integrate Moldova into the European common aviation market. The EU plans to provide technical assistance to the Moldovan aviation authorities in order to harmonise the legal and regulatory framework within the agreed time frame.

Regarding maritime transport, the Government took steps to improve the sector's performance. The Moldovan fleet continued to figure in the high risk category of the black list of the Paris Memorandum of Understanding on Port State Control, but a number of ships have been removed from the Moldovan register and pre-registration control procedures were improved. In June, the Government approved a new code for inland shipping which is expected to be adopted in 2013.

In January 2013, the government adopted, following public consultations, the updated **energy** strategy until 2030. The sector is still marked by low energy efficiency, high dependence on a single supplier (Gazprom) and accumulated gas debts to Gazprom. Negotiations with Gazprom on gas supply, transit and the accumulated debt (also related to 'Transnistria') continued. Moldova further implemented its Energy Community obligations; derogation for unbundling in the gas sector was granted, until 1 January 2020. In May, the regulator increased electricity tariffs. Moldova pursued heat sector restructuring and addressing debts in this sector. Preparations for major energy infrastructure projects continued including the Ungheni-Iasi gas interconnection and the Balti-Suceava high-voltage electric line. Together with Ukraine and Romania, Moldova also continued preparations for possible synchronous interconnection of the Moldovan and Ukrainian power systems to the European Network of Transmission System Operators for Electricity, the continental European power system. For this project, EU cross-border cooperation support is planned. Draft laws on natural gas, heat and renewable energy law are in preparation. Moldova prepared drafts of a national energy efficiency action plan 2012-2014 and a national renewable action plan 2012-2020. It also drafted an incentives package, including on feed-in tariffs, for increased use of renewable energy sources. In June, an energy efficiency fund was established. Moldova implemented energy efficiency and renewable energy projects including on enhancing biomass use in cities. The EU energy reform budget support programme (EUR 42.6 million), focusing on energy efficiency and renewable energy, is being implemented.

As regards **climate change**, Moldova participated in preparations for the forthcoming regional EU Clima East project (EUR 18 million) that will be implemented in the period 2013-2016. Moldova is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17th and 18th sessions of the United Nations Framework Convention on Climate Change Conference of the Parties. It is also encouraged to make additional efforts to fully implement the Cancun and Durban agreements and in particular devise a low-carbon development strategy.

In the field of **environment**, institutional capacity and resources to ensure strategic planning and implementation still pose challenges. More than 20 pieces of legislation are

in preparation, mainly with external assistance. The EU's Sector Policy Support in the water sector requires more attention.

The Regional Environmental Centre-Moldova improved its performance. It has a stable financial outlook for the years to come and is supported by the Ministry of Environment.

In May, Moldova signed with the European Commission an Administrative Arrangement on **Civil Protection**, committing the partners to strengthening their cooperation in disaster prevention, preparedness and response. Moldova continued to participate in the Eastern Partnership flagship project on prevention, preparedness and response to natural and man-made disasters (PPRD East). As a part of the programme Moldova is contributing to the development of Electronic Regional Risk Atlas. Relevant Moldavian institutions are involved in respective activities and the development phase of the atlas is close to completing in the country. Moldova is encouraged to take advantage of the guiding document on Risk Assessment Policy for the EaP region produced under the PPRD East programme.

Moldova is among the 168 governments that adopted the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters", but work on Disaster Risk Reduction is still only at the beginning and it will require considerable further effort to develop capacities and processes.

Regarding the **information society**, the national regulator ANRCETI strengthened its position and dealt with market analysis, accounting separation for the incumbent JSC 'Moldtelecom' and management of numbering resources. ANRCETI adopted the regulation on number portability (to be implemented for both fixed and mobile networks in 2013). In February, ANRCETI published the final versions of the cost calculation models for call termination in fixed and mobile networks. The models' approach is based on the recommended by the Commission. Throughout 2012, ANRCETI acted as temporary chair of a newly established network of EaP regulators for electronic communications (until the formal appointment of chair in the 1st official plenary meeting of the network in March 2013).

In April, the **Audiovisual** Coordination Council withdrew the broadcasting licence of the opposition television channel NIT, thus undermining media pluralism. The appeal of the NIT channel was postponed several times until it was dismissed by the Chisinau Court of Appeal in February 2013. Moldova amended rules relating to reporting on election campaigning during the election period. The journalist code of ethics, developed by the self-regulating Press Council, entered into force. Little progress was made in reforming the public broadcaster TRM and the broadcasting code.

Moldova's **research** and **innovation** policy focused on EU integration. A major success in this respect was the country's association to the EU's Seventh Framework Programme for Research and Technological Development (FP7) as from 1 January 2012. The Moldovan research and innovation system is marked by a centralised structure, whereby the Academy of Sciences fulfils a role close to that of a Ministry of Science. The

Academy is the main public research organisation in the country; it allocates most of the governmental funding for research and development. The Academy adopted a comprehensive action plan to prepare the research community for the opportunities of FP7 association. 26 public and private institutions participate in 27 projects under FP7. A total EU contribution to these projects amounts to EUR 76 million, of which EUR 2.6 million went to the Moldovan partners. The Moldovan partners have been most active in collaborative research projects in ICT and health, and in international research infrastructure projects.

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

Reform of the **education** sector is a high priority. Moldova spends a high percentage (around 9%) of GDP on education, but output and quality of education are poor in relation to resources spent due to their inefficient use and an inadequate match between education and the needs of the labour market. Efforts to optimise the use of resources meet with considerable social resistance as they affect small rural communities, minorities and teachers disproportionately. The sector strategy “Education – 2020”, with clear priorities regarding the development of all levels of the education system in Moldova from both short and long-term perspectives, is still under consideration by the Government. The revised Code of Education remained under public discussion. Further reforms are necessary on the third cycle (doctoral studies), where the Bologna process requirements have not yet been extended.

Further reforms are also needed in the **vocational education and training** (VET) sector, which will benefit from increased EU support, both through a technical assistance project "support for the vocational education and training sector", as well as a VET Sector Budget Support Programme currently under preparation. A VET Strategy was adopted in January 2013.

Moldova confirmed its high interest in the **Tempus** programme. In 2012, nine additional Tempus projects involving the country were selected. To date, all the 33 higher education institutions in the country have participated in a Tempus project; the Tempus programme made significant contributions towards the modernisation of the higher education system. Moldova continued its active participation in the **Erasmus Mundus** programme with the award of seven new scholarships for Erasmus Mundus joint Masters courses and further 190 grants for short-term mobility organised within a university consortium. Ten Moldovan institutions and 16 individual researchers participated in **Marie Curie Actions**, supporting researchers’ training, mobility and career development. One additional project (support to the Association of professors and researchers on European integration) was selected under the **Jean Monnet** Programme in 2012.

Moldovan youth and youth organisations continue to benefit from the **Youth in Action** Programme. For 2012 and 2013, the European Neighbourhood and Partnership Instrument (EMPI) is providing additional funds to the Youth in Action Programme to increase cooperation among young people, youth workers and youth organisations from the EU and the Eastern Partnership neighbouring countries. In 2012, the setting up of the

Eastern Partnership Youth Window within the Youth in Action Programme nearly tripled the number of young Moldovan participants in the programme. 303 projects were selected in 2012 involving 987 young citizens of Moldova.

Substantive progress was made on **cultural** policy regulation. Drafting of a law on culture accompanied by a national strategy on cultural developments is on-going. A national programme for the computerisation of cultural products was approved. In April, Moldova adopted a law on protection of the national movable cultural heritage. Following the adoption of a regulation concerning the conservation and restoration of historic monuments, Moldova established an agency for the protection of archaeological heritage. An institute for the protection of monuments and a national agency for cinema are to be created. Efforts should be pursued to improve coordination between the different institutions in charge of heritage protection. Moldova participated in six projects under the Eastern Partnership Culture Programme.

Moldova continued implementing its **health** reform programmes. The EU budget support was topped up by EUR 6.0 million under the Eastern Partnership Integration and Cooperation programme 2012 funds, thus reaching EUR 49.45 million. The country continued restructuring its primary health care services and the hospital sector. The average salary of health professionals increased by approximately 10%, but the availability of sufficient financial means and health workers remained a challenge. The first twinning project in the health sector is under preparation. The country continued addressing HIV/AIDS and tuberculosis challenges. In 2012, despite being invited, Moldova did not participate in the Commission's HIV/AIDS think tank. Moldova adopted a strategy for prevention and control of non-communicable diseases and programmes on tobacco and alcohol control. Moldovan health workers were trained. The country prepared an assessment of the state of approximation of its health legislation compared to the EU health acquis. Chisinau and Tiraspol cooperated well in the health sector.