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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.4.2009
SEC(2009) 514

COMMISSION STAFF WORKING DOCUMENT

Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Implementation of the European Neighbourhood Policy in 2008

Progress Report Republic of Moldova

{COM(2009) 188 final}
{SEC(2009) 511}
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1. BACKGROUND AND OVERALL ASSESSMENT

The Republic of Moldova (hereafter referred to as Moldova) and the EU first established contractual relations in 1994 through a Partnership and Cooperation Agreement, which entered into force in 1998. On this basis, the EU-Moldova ENP Action Plan was adopted in February 2005 for a period of three years, and prolonged by mutual agreement beyond February 2008. Until February 2008, its implementation was guided and monitored on the basis of annual implementation tools, which set out comprehensive yearly sets of priorities and timelines, based on the priorities agreed jointly by the EU and Moldova. A first progress report was adopted in December 2006 and a second one in April 2008. Moreover, evaluations have been carried out every year, both on the EU side and on the Moldovan side.

In addition, institutional cooperation through the EU-Moldova Cooperation Council, the EU-Moldova Cooperation Committee and four subcommittees enabled both sides to pursue political and sectoral dialogues, and to follow the implementation of the ENP Action Plan closely.

This document reports on overall progress made on the implementation of the EU- Moldova ENP Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Moldova.

Moldova remains a partner having made substantive progress in governance and reform over the last years. Overall, during the reporting period, Moldova made progress in most areas of the ENP Action Plan. Major achievements during the reporting period were the pursuit of the reform of the judicial system, the agreement to publish reports of the European Committee for the Prevention of Torture, positive cooperation with the EU Border Assistance Mission (EUBAM), active leadership in regional cooperation fora, and enhanced cooperation with the EU on regional and international issues. Moldova has been able to ensure the correct implementation of the conditions for benefiting from the EU Autonomous Trade Preferences since their entry into force in March 2008. Moldova continued also to cooperate with the EU on all questions related to the Transnistria settlement efforts, including on confidence-building measures geared at improving grass-roots dialogue with the population in Transnistria. The Moldovan economy rebounded robustly after the 2007 drought, despite the negative effect of external shocks, including severe floods during the summer and the global financial turmoil in the last months of the year.

Nonetheless, Moldova made no or limited progress in the effective implementation of a number of reforms which constitute key priorities under the ENP Action Plan. These include in particular ensuring the fundamental freedoms of citizens, addressing some market and regulatory issues, and enforcing effectively national strategies in areas such as the fight against corruption, drugs and trafficking in human beings, or in sectors such as transport and energy. As noted in the last report, inadequate allocation of resources, delays with the adoption of secondary legislation or insufficient political backing constitute lasting impediments to the implementation of internal reforms. Moreover, the electoral law adopted in view of the April 2009 general elections constituted a regression.

2. POLITICAL DIALOGUE AND REFORM

With the prospects of a new bilateral agreement, the political dialogue between the EU and Moldova intensified. Consultations took place between the Moldovan government and the EU Political and Security Committee, the Council Working Party on Eastern Europe and Central Asia, and the Political Directors' Troika. In May 2008, the Moldovan executive set up a National Commission for European Integration, chaired by the President of the Republic.

Democracy and the Rule of law

Objectives in this area include: strengthening the stability and effectiveness of institutions guaranteeing democracy and the rule of law; strengthening the capacity of the judiciary and reviewing existing legislation to ensure the independence and impartiality of the judiciary, including the prosecution; and ensuring the effectiveness of the fight against corruption.

During 2008, the Government was actively preparing the general **elections** held in April 2009, which will be reported upon in next year's report. The Parliament adopted legislation prohibiting the holding of dual or multiple citizenship for numerous categories of officials and elected representatives, and modified the Electoral Code in April 2008, raising the threshold for political forces to be represented in Parliament and prohibiting pre-electoral alliances. In a joint opinion, the Venice Commission of the Council of Europe and the OSCE Office for Democratic Institutions and Human Rights stated that these amendments constituted a setback and unequivocally recommended repealing them in advance of the April 2009 elections. In a ruling in November 2008, the European Court of Human Rights declared that the new legislation on multiple citizenship violated Article 3 of Protocol 1 to the European Convention for the Protection of Human Rights and Fundamental Freedoms guaranteeing the right to free elections.

Moldova pursued the reform of its **judicial system**, based on a strategy adopted in 2006. In doing so, it faced a number of resilient challenges in implementation. The Department for Judicial Administration under the Ministry of Justice, created in 2007, effectively started its activities behind schedule; the Judicial Inspection faced repeated problems in recruiting staff and could not commence its operations as planned. The Code of Ethics for Judges (2007) was largely disseminated; however, its effective implementation remains to be assessed. Besides, the implementation of the law on State-guaranteed Legal Assistance, to be put into operation in 2009, was actively prepared. Training and retraining programmes for judges, bailiffs and prosecutors continued to be delivered, including on human rights related legislation. Legislation adopted in December 2008 reformed the Public Prosecutor's Office although it did not fully take into consideration the Council of Europe's advice on the independence of the prosecution and amended the status of judges as well as the composition of the Supreme Council of Magistracy. The main challenge for Moldova remains to implement these legislative measures, taking into account the limited resources allocated to that aim.

Progress was made in the area of public governance with the adoption of two new laws: a law on the **Civil Service** in July 2008 - which provides for a delimitation of political and non-political functions in public administration – and a law on Transparency in the Public Decision-making Process, adopted in November 2008.

Within the framework of Moldova's national strategy and action plan 2007-2009 on **fighting corruption**, important anti-corruption laws entered into force (laws on Political Parties, on Conflict of Interest, on Preventing and Combating Corruption) or were adopted (laws on the

Protection of Witnesses and Process Participants; Code of Ethics for civil servants; changes to the law on Officials' Income and Assets Declaration). In its December 2008 Compliance Report, the Council of Europe Group of States against Corruption (GRECO) concluded that significant progress had been achieved on its recommendations to Moldova. While contributing to improve Moldova's position in international studies on corruption perception, these developments have yet to be accompanied by an adequate allocation of resources and appropriate secondary legislation in order to ensure their efficient implementation. In a few areas, measures remain insufficient or have not been finalised or adopted; for instance, as regards legislation on special investigative techniques, the inclusion to a broader extent of corruption in the anti-money laundering mechanisms, effective controls over conflicts of interest and asset declarations, the reporting of suspicions of corruption and whistleblower protection, or the incrimination of certain accounting offences or manipulations. There is therefore scope for further adjustment of the legislative framework.

In July 2008, the Government requested all central public institutions to launch corruption risk assessments and design integrity plans, with the support of the Centre for Combating Corruption and Economic Crimes (CCCEC). The analysis of the cases dealt with by the CCCEC points to the need to extend this request also to local public institutions. In November 2008, a Coordinating Council for Preventing and Combating Crime was set up with a view to coordinating action aimed at preventing and counteracting crime and corruption, human trafficking and illegal migration. However, the monitoring mechanism of the national anti-corruption strategy requires further strengthening of its capacity and the wider involvement of relevant stakeholders from Government and civil society. No further progress was noted as regards a draft law on corruption of voters, which was submitted to Parliament in 2006.

No developments took place concerning compliance of the legislative framework with Council of Europe standards in the field of **local self-government**.

Human rights and fundamental freedoms

Objectives in this area include: ensuring respect of human rights and fundamental freedoms, including the right of persons belonging to national minorities; developing and implementing an appropriate legal framework for the prevention of, and the fight against, the trafficking in human beings and for addressing the problems faced by the victims of trafficking; eradication of ill-treatment and torture; ensuring respect of children's rights, equal treatment, freedom of expression; freedom of association and fostering the development of the civil society; ensuring respect for trade unions' rights and core labour standards; ensuring international justice through the International Criminal Court.

The Parliament held several public hearings on the implementation by the Government of the National Action Plan on **Human Rights**, which expired in November 2008. Preparations for the successor action plan for 2009-2012 were initiated in December 2008. Four parliamentary advocates (ombudspersons), one of them being now in charge of the protection of children's rights, were appointed in October (these positions had been left vacant for several months in 2008).

In April 2008, new legislation provided the regulatory framework for enforcing the decisions of the European Court of Human Rights (ECHR) in Moldova. The Court has ruled against Moldova in a number of cases for violations of the European Convention on Human Rights (including with regards to the length of legal proceedings, right of property, and ill-treatment).

In 2008, Moldova ranked third as per the number of applications allocated to a judicial formation in the ECHR per capita (3.21 applications per 10 000 citizens).

Moldova complied with all its reporting obligations under the UN human rights conventions to which it is a Party. In January 2008, Moldova ratified the First Optional Protocol to the Covenant on Civil and Political Rights. No progress was made towards signing the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families. Moldova fully cooperated with the UN Special Rapporteur on Violence against Women and the Special Rapporteur on Torture during their joint visit to the country in July 2008.

On national **minorities**, the inadequate resources allocated to the implementation of the national action plan in support of the Roma population (2007-2010) and the lack of data for assessing progress constitute significant impediments to the effective implementation. No progress can be reported on the ratification of the European Charter for Regional or Minority Languages. As regards freedom of religion, non-governmental organisations pointed to the lack of adequate public monitoring of the implementation of the law on Religious Cults; several cases of arrest of priests of the Bessarabia Church were registered. After a series of consultation rounds with civil society, the Government submitted draft legislation on anti-discrimination to Parliament.

Despite notable efforts made by the authorities, **ill-treatment** by the police remains widespread and conditions in police detention facilities and prisons remain serious sources of concern (i.a. overcrowding, inter-prisoner violence, abuse of detainees). In November 2008, the Government authorised the European Committee for the Prevention of Torture (CPT) to publish all CPT reports on Moldova. A Law on Civil Control of the Respect for Human Rights in prisons was adopted in November 2008. It provides for an independent mechanism for monitoring prisons, with a view to guaranteeing transparency and the prevention of ill-treatment and torture of prisoners. The director of the Centre for Human Rights (Ombudsman) was appointed to coordinate the national preventive mechanism, established in accordance with the Optional Protocol to the UN Convention against Torture. A training programme on human rights and in particular the rights of detainees was developed by the Department of Penitentiary Institutions. No progress was made in practice towards the transfer of responsibility for persons on remand to the Ministry of Justice.

No steps were noted in effectively consolidating **freedom of expression and media pluralism in the country**. The EU Heads of Mission in Chisinau expressed their concerns in that regard in two joint statements, respectively in July and November 2008. In December 2008, PRO-TV, a major independent television channel, came close to being deprived of its broadcasting license by the national broadcasting regulator and only pressure from the international community prevented a disruption of its service. No developments took place as regards the institutional strengthening of the Broadcasting Coordination Council, nor the editorial independence and institutional autonomy of Teleradio Moldova. Several instances of supporters and members of opposition parties being intimidated by law enforcement officials were reported in the autumn 2008. Civil society organisations complained of poor implementation of the law on Access to Information. The law on State Secrets, adopted by the Parliament in November 2008, falls short of international standards on the right to information and expression. In December 2008, the Constitutional Court endorsed only partly the draft law proposed by the Government to align the Constitution (on freedom of opinion and expression) with the European Convention for the Protection of Human Rights and Fundamental Freedoms. In particular, the Court did not deem it possible to remove from the

Constitution the reference to “defamation of the State and the people” from the list of forbidden activities subject to criminal proceedings. The amended draft law was later sent to Parliament for consideration.

The new legislation on **freedom of assembly**, which was adopted in February 2008 following an intensive consultation process with civil society, and which entered into force in April, was widely received as a positive development. Its poor implementation record indicates however that there is a need for adequate awareness-raising and training of the relevant executive bodies in order for the law to achieve its objectives.

In September 2008, the Government summoned an inaugural meeting of the National Council for Participation, a forum where the executive can consult **civil society**, including economic operators, in formulating, implementing, monitoring and assessing public policies. Once established, this body will aim to foster dialogue between the public authorities and civil society, which was until now widely considered by non-governmental organisations as insufficient. In December 2008, Parliament adopted a well-received strategy on the development of civil society in 2008-2011.

While **gender equality** is ensured and promoted by law, women continue to face substantial discrimination in practice, including high levels of unemployment and deep-rooted stereotypes. The Interministerial Commission on Gender Equality resumed its activities in 2008, but the implementation record of the law on Equal Chances for Men and Women remained modest. Domestic Violence remained widespread and insufficiently acknowledged. The Government undertook awareness-raising activities, and a law on Preventing and Combating Domestic Violence was adopted and entered into force in September 2008. The protective infrastructure for victims of domestic violence remains insufficient.

Moldova made progress on several aspects of **children’s rights**, including with regard to health, juvenile justice, de-institutionalisation and access to early childhood education. Weak enforcement, however, undermined these efforts. The relevant services, structures and budgets needed to sustain positive trends are not yet in place. Besides, further political leadership and coordination are needed to address the complex, multi-sectoral challenges raised by child protection system reform and social protection. Moldova started to implement the ‘Decent Work’ country programme 2008-2011 signed in June 2008 with the International Labour Organisation (ILO) and the constituent **social partners**. The National Commission for Consultation and Collective Bargaining was reformed, based on technical advice from the ILO. Legislation on occupational health and labour safety was adopted in July 2008. Still, labour dispute legislation needs to be aligned with the ILO Convention on collective bargaining.

On **trade unions’ rights and core labour standards**, some but not all required amendments to the legislation on labour disputes have been adopted (in particular, a law on Safety and Health at Work was adopted in July 2008). Moldova’s updated report on its application of the revised European Social Charter was registered with the Council of Europe just after the reporting period, in January 2009.

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

Objectives in this area include: strengthening political dialogue and cooperation on foreign and security policy issues; developing cooperation in the area of combating terrorism, non-proliferation of WMD and illegal arms exports.

Moldova cooperated actively with the EU on regional and international issues, and aligned itself with nearly all EU **CFSP declarations** open for alignment, including on the armed conflict in Georgia. Little progress was noted regarding dialogue with the EU on the implementation of the European Security Strategy.

During the UN General Assembly of September 2008, Moldova actively promoted the proposal for a UN convention on international terrorism.

A draft law on ratification of the Rome Statute of the **International Criminal Court**, sent to the Parliament in February 2008, is still pending.

Regional cooperation

Objectives in this area include: continuing Moldova's targeted regional cooperation under activities of the South-East Europe Cooperation Process and Regional Cooperation Council, and other relevant regional organisations.

Moldova is an active member of the Central European Initiative (CEI), the South-East European Cooperation Process (SEECP) and Regional Cooperation Council (RCC), and the Central European Free Trade Agreement (CEFTA). In 2008 it held the chairmanships of CEFTA, CEI and SEECP. It intensified contacts between SEECP and the Organisation of the Black Sea Economic Cooperation (BSEC) to coordinate priorities and fostered the establishment of formal structures for the Stability Pact Anti-Corruption Initiative and Initiative against Organised Crime.

Cooperation for the settlement of the Transnistrian conflict

Moldova cooperated constructively with the EU on all questions related to the Transnistria settlement efforts. It took part in all informal meetings in the so-called "5+2" format. The President of the Republic and the Transnistrian separatist leader met twice, after a seven-year break. Pursuing its confidence-building initiative put forward in autumn 2007, Moldova agreed with the separatist authorities to set up five bilateral working groups. The Government foresaw a specific allocation in the 2009 State budget to facilitate the settlement of the Transnistrian conflict. Together with Ukraine, Moldova continued to implement its customs regime based on the Joint Declaration of the Moldovan and Ukrainian Prime Ministers of December 2005.

EU Border Assistance Mission to Moldova and Ukraine (EUBAM)

Moldova continues to be fully committed to, and to participate constructively in, the work of EU Border Assistance Mission to Moldova and Ukraine (EUBAM). With EUBAM support, the professional capacities of the Moldovan customs and border guard services were enhanced, as was inter-agency cooperation within Moldova and between Moldova and Ukraine – such as the joint operation of a new pre-arrival information exchange system. In December 2008, the 7th Trilateral meeting on border issues took place in Brussels. All sides

confirmed the progress made in border security at the Moldovan-Ukrainian border and emphasised that cross-border cooperation had improved significantly.

In November 2008, Moldova requested a second extension of the EUBAM mission, beyond November 2009.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning of the market economy

Moldova's economic performance was significantly affected by the 2007 drought. GDP growth was weaker than the region's average. The economic activity rebounded strongly in 2008 when output increased by an estimated 7.2%. However, in the last months of 2008, the global financial turmoil started affecting the economy, and output growth slowed down significantly.

Data by sector of origin indicate that Moldova's improved performance in 2008 is primarily attributable to agriculture whose output increased by more than one-third (after a similar decline in 2007), and to the services sector, mainly trade and transport. At the same time, the industrial production increased only marginally (by 0.3%, following a decline in 2007), and the production of the services expanded by less than 4%, after a 14% growth in 2007. The deceleration of growth in the services sector reflects primarily the sharp slowdown in construction, from more than 20% in 2007 to just 1% in 2008. This slowdown reflects in its turn the deceleration of the growth in domestic investment demand, the main engine of growth in Moldova in 2007 (and, together with the household consumption, in the previous years).

Although overall the production of the tradables sectors increased in 2008 (contrary to 2007), Moldova's economy remains extremely fragile – exports cover of imports is less than half and the trade deficit in 2008 exceeded 50% of GDP – and dependent on external environment, in particular external financing. In 2008, once again, the huge trade deficit could be financed comfortably, partly by ever growing remittances of Moldova's workers abroad (the current account deficit was maintained at slightly above 16% of GDP), partly by foreign direct investments and bank credits. Given that Moldova's main trading partners – Russia, Ukraine, Belarus, but also the EU – are all severely affected by the global crisis and that the external financing conditions, notably the availability of credit resources for transition economies like Moldova's and prospects for further growth of remittances flows have deteriorated sharply since the start of the global financial turmoil, prospects for continued growth in the country are much more uncertain now. In particular, it is unlikely that domestic demand will continue growing fast and lead to growing imports.

The severe slowdown in domestic demand towards the end of 2008 has helped the National Bank reduce drastically inflation that had peaked at 17% in May 2008 (inflation had been accelerating since the second half of 2007, reflecting both the trends in the global commodities prices, the effects of the drought and massive capital inflows). At the end of 2008, inflation was down to little more than 7%. This allowed the National Bank to cut several times its interest rates, in order to stimulate domestic economic activity. The fiscal policy remained restrictive, and the consolidated general government budget remained within the limits set by Moldova's economic programme agreed with the IMF (on track for all of 2008).

Moldova's structural reform agenda is laid down in the National Development Strategy (NDS, voted into law in December 2007). The NDS reflects largely the priorities of the EU-Moldova ENP Action Plan.

Employment and social policy

The reduction of **poverty**, still substantial (29% of the population according to the latest figures available (2007)), remains the overarching objective of the Government's economic strategy.

In March 2008, the Government submitted a progress report on the implementation of the 2007-2015 National Strategy on **Employment**. In December 2008, the ILO performed the audit of the labour inspection to assess its capacities and signed a decent work country programme with Moldova for the years 2008-2011. The programme, which was developed with the participation of the Government, trade unions and employers' organisation, focuses on better labour administration, effective employment policy formulation and on the development of sound social security policies based on social dialogue. According to the latest ILO data available, 3.6% of the active population was unemployed. The capacity to analyse labour market and employment policy improved in Moldova in particular through the Strategy which provides for more precise targeting of measures and better reach of the programmes.

The Government launched a national programme for youth economic empowerment in 2008-2010 as one of the core actions to be carried out under the Youth Year Action Programme. There is still a mismatch between the current vocational education and the labour market demands.

Moldova took a number of legislative measures to improve **social dialogue** such as the adoption in July 2008 of the law on Health Protection and Labour Safety and the modifications in March 2008 of the Labour Code relating to hiring and firing employees. Furthermore, the labour inspection and the national confederation of trade unions signed a cooperation agreement for 2008.

In the area of **social protection**, in October 2008 Moldova started to implement a new law on Social Assistance. It introduces needs-based transfers to vulnerable groups of population. The amount of eligible families is estimated at 71,000. The funds allocated for needs-based social assistance amount to 5% of total public expenditures on social assistance. The number of social assistants was also substantially increased. Sufficient funding should be earmarked for the fulfilment of these provisions. Nine community social care centres opened in 2008. The automated system aimed to facilitate implementation of the new law at the local level started its operations in the end of 2008. Finally, Moldova is working on a unified pension system.

The ILO provides support to the training of the Moldovan teams negotiating **social security** agreements. In March 2008, the Government decided the indexation of **social insurance** pensions by 17%.

A National strategy on **sustainable development** of agriculture (2008-2015) was adopted and an increased number of interministerial committees, at minister and department director levels, were tasked with integrating environment and sustainable development concerns into sectoral activities.

Limited progress can be reported as regards **rural/regional development**, a task for which budgetary allocations are inadequate. Although the National Strategy for Regional Development has not been adopted yet and the National Fund for Regional Development is not operational, a National Coordination Council for Regional Development, chaired by the Minister of Economy and Trade, was created. It appointed the chairpersons of the three first Regional Development Councils (North, Central and South); recruitment in view of staffing the related Regional development agencies is not finalised.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral **trade** in goods between the EU and Moldova continued to grow in 2008. Imports from Moldova increased by 2.7% and exports by 14.1% compared to 2007. Trade with the EU accounted for 50.2% of total Moldovan trade in 2007 thus making the EU by far the first trading partner of Moldova. Since March 2008 Moldova benefits from the comprehensive EU Autonomous Trade Preferences (ATPs) and made an extensive use of available quotas under this regime, notably for wine, sugar and cereals. During the reporting period there was no change in the trade structure and diversification of exports remains low. A project aiming at fostering export promotion and investment attraction was launched in December 2008 with EU support. In order to make full use of the benefits stemming from the ATPs, Moldova should continue its regulatory reforms and improve the business and investment conditions. In particular, Moldova should intensify its efforts on improving its sanitary and veterinary standards to be able to take full advantage of the preferences in the agricultural sector. Moldova confirmed its commitment to maintain and implement its obligations under the key international conventions on human and labour rights, sustainable development and good governance (GSP+ conventions).

In December 2008, in line with the Council Conclusions of October 2008, the European Commission launched a feasibility study on a possible future deep and **comprehensive free trade area** (DCFTA) with Moldova. The feasibility study, the results of which are expected to be ready in the summer of 2009, will contribute to a comprehensive assessment of Moldova's readiness to take on and implement the commitments of a possible future DCFTA and to sustain the effects of far-reaching liberalisation. The comprehensive assessment will also include an analysis of the impact of the ATPs, together with progress made so far in implementing the trade aspects of the EU-Moldova ENP Action Plan.

Overall, good progress was made in the area of **customs**. The Moldovan Customs Service (MDCS) ensured that the ATPs functioned correctly. The Harmonised System for the Classification of Goods is applied from January 2008. The MDCS elaborated a new IT system named TARIM, equivalent to the EU's Integrated Tariff (TARIC). Moldova provisionally ratified the Istanbul Convention on Temporary Admission and is preparing for ratification of the Kyoto Convention on Simplification and Harmonisation of Customs Procedures. In May 2008 the customs procedures regarding intellectual property rights (IPR) were strengthened, including by allowing *ex officio* intervention by customs. A draft Customs Procedures Code was adopted by the Government in December 2008 with a view to harmonising further customs procedures with the EU Customs Code.

Concerning administrative capacity, the MDCS adopted an Institutional Development Plan for the Customs Service (IDPCS) for the period 2009-2011 based on EU principles and standards, with contributions from relevant ministries. An improved Customs Code of Ethics was sent to the Government for approval in December 2008.

The MDCS started the implementation of its action plan to connect in the future to the new computerised transit system (NCTS). The action plan foresees the harmonisation of the relevant customs legislation, as well as strengthening of the current IT infrastructure. Besides, a programme to upgrade the customs automated system “ASYCUDA World” is on-going; it will modernise its modules in order to allow for the use of digital signature, the development of the “blue corridor” and *ex-post* audit, and the implementation of the integrated customs tariff based on EU standards.

The MDCS continued to implement the concept of a ‘one-stop shop’: an action plan approved by the Prime Minister in March 2008 defines the legal and institutional measures necessary for the implementation of this concept, including the competences of the authorities present at the border and the IT information data exchange system. Since September 2008, the MDCS has been in charge of the control of international passengers and freight transport at border inspection posts (BIPs), including the calculation of road taxes, and took on the competences previously attributed to the State Phytosanitary Quarantine and to the State Ecological Inspectorate. To achieve the objectives of the Action Plan in this area, exchange of information with the Ukrainian Customs Service need to be improved. Further efforts are necessary to ensure a smooth implementation of the one-stop shop concept.

Regarding **free movement of goods and technical regulations**, Moldova pursued its efforts towards preparations for the negotiation of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Transition from mandatory to voluntary standards had already advanced through the adoption of the 2007 package of horizontal laws, including amendments to the law on Standardisation. During the reporting period, Moldovan legislation was harmonised to several sectoral EU directives. The National Institute for Standardisation and Metrology (INSM) has taken charge of standardisation. In 2008, it became an affiliate member of the European Committee for Standardisation (CEN). Moldova continued adopting several EU and ISO standards. In June 2008, the Government adopted a decree on the State Main Inspectorate for Market Surveillance, Metrology and Consumer Protection. Market surveillance remains an area with many challenges.

Moldova continued to implement, in the field of **sanitary and phyto-sanitary (SPS) issues**, its action plan on animal health and food safety. Following up to the European Commission’s Food and Veterinary Office (FVO) 2005 inspection visit, a FVO visit took place in May 2008 which concluded that substantial steps were needed to achieve the objectives of this action plan. As a result of the inspection, the European Commission removed Moldova from the list of third countries with an approved residue monitoring plan for honey. In September 2008, Moldova presented a revised plan of action to address FVO concerns; discussions are continuing.

Some other steps were taken towards convergence with EU standards. A law on Veterinary Activity entered into force in September 2008. It addresses, *inter alia*, the role of the agencies active in this field. A law on the protection of plant varieties entered into force in 2008. Moreover, Moldova adopted secondary legislation on SPS and continued the preparation of a hygiene package. In October 2008, the Government established the Sanitary-Veterinary Agency for Safety of Products of Animal Origin. Its aim is to better coordinate the work of the various bodies responsible for this area. The country continued the upgrade of testing laboratories and further developed animal identification and registration. It approved, in February 2008, contingency plans for classical swine fever and foot-and-mouth disease. It continued participation in workshops under the European Commission’s “Better training for safer food” programme.

Concerning the **business climate**, challenges remained in areas such as VAT refund, limitations on the acquisition of land and the issuing of construction permits (which often takes a disproportionately long time). Respect for the rule of law is an essential element of improving business climate in Moldova. In addition to a sound macroeconomic policy framework, for the business climate to be really conducive of new investments, structural reforms and improvements of public institutions need to be pursued in order to support the establishment of a friendly and predictable business environment, competitive markets with fluid firm entry and exit rates, more sophisticated securities markets and non-bank financial institutions, and sustainable public investment in infrastructure. The Government continued to promote free economic zones and industrial parks to attract investments.

As regards **company law and establishment**, Moldova continued implementing the Corporate Governance Code as well as the laws on Joint-stock Companies and on Limited Liability Companies, which were further approximated with EU legislation as well as international standards. However Moldova needs to make further efforts to enforce efficiently existing rules on disclosure requirements for joint-stock companies, investors and the stock exchange in order to ensure a satisfactory level of transparency. The Law on Registration of Legal Persons and Individual Entrepreneurs was revised in June 2008 in order to further ease the registration of companies. In November 2008, a one-stop shop for issuing more than 80 different licenses was established in the form of a “Licensing Agency”. Further significant efforts are needed, though, to reduce administrative requirements and controls imposed on companies. A Corporate Governance Code was adopted on the basis of OECD principles in 2008, accompanied with a massive awareness raising campaign.

Moldova continued to strengthen its supervisory framework in the field of **financial services**. The Central Bank conducted field research with a view to making banks’ ownership more transparent; it collected information about stakeholders and issued recommendations to the commercial banks on how to improve their internal audit procedures. In August 2008 the IMF’s revised Financial Sector Assessment Programme (FSAP) provided new recommendations on the strengthening of financial services. Banking supervision structures were found not yet fully compliant with Basel II principles for effective banking supervision. During 2008, Moldova improved its inter-bank payment system (AIPS) by modernising some elements of the national payment infrastructure. A Law on Mortgage, accompanied by amendments to several related laws, was adopted in June 2008.

The National Commission on the Financial Market (NCFM), as a unified supervision authority for non-banking financial services, prepared a Strategy for the Development of the Non-Banking Financial Sector in 2009-2011. Since October 2008, the NCFM has been empowered to issue, suspend and withdraw licenses for activity in the area of insurance, for administering the assets of non-state pension funds, and for running savings and loan associations. Also, a National Association of Insurance companies was created in 2008.

As regards **movement of capital and current payments**, the March 2008 Law on Foreign Exchange Regulation further aligned the Moldovan legislation with EU standards.

As regards **movement of persons**, Moldova signed, in December 2008, a bilateral agreement with Bulgaria on the coordination of social security. Furthermore, a law on Labour Migration, adopted in July 2008, entered into force in January 2009. The law, which regulates the employment of immigrants, is not fully in line with the standards of the ILO and the Council of Europe.

Other key areas

In March 2008 the Government approved a regulation aiming at simplifying and accelerating the procedures for VAT refund for exported goods and for investments in real estate. However, foreign investors still face difficulties with regard to VAT refunds. In June 2008, Parliament approved legislation to transfer all functions of **tax** control, tax assessment and tax collection to the Main State Tax Inspectorate (MSTI) and to allow for the right to write off uncollectible tax arrears. As from January 2008, the Tax Code provides for the possibility to claim VAT refund linked to investments (fixed assets). However, no claim for VAT refund for investments made in Chisinau and Balti (two major economic centres in Moldova), nor for the acquisition of living premises and transportation means are allowed. The effects of the introduction of zero-rate corporate tax for reinvested profits introduced in January 2008 in terms of new FDI remains to be evaluated.

In the area of **competition policy**, the NDS provides for a development of competition and approval of clear rules for state aid. A draft law on Competition, prepared by the National Agency for the Protection of Competition (NAPC), was sent back to the Parliament by the President's office in July 2008. In November 2008, the revised draft law was not approved and it was sent back for re-examination. The upgrading of the 2000 Law on Competition is necessary to allow the NAPC to perform better when investigating and prosecuting anti-competitive business practices, while at the same time ensuring legal guarantees and the right of defense to undertakings. A new draft law on State Aid is still under examination by the Government.

Moldova further complemented its legislation on **intellectual property rights** (IPR) with the entry into force of legislation on trademarks and on the protection of plant varieties (September 2008), as well as on the protection of inventions and on protection of geographical indications, appellations of origins and traditional specialties (October 2008). In addition, it adopted in October 2008 a draft law on the ratification of the Singapore Treaty on the law of trademarks. In December 2008 the Government approved a draft law on Copyright and Related Rights, which remains to be adopted. The access of right holders to legal information was improved through the opening, in April 2008, of a dedicated Information and Documentation IPR Centre. The trademark database has been available, free of charge, since October 2008. However, the weak enforcement of IPR, as well as the high level of piracy and counterfeiting, including at the borders, remain a source of concern. The National Commission on Intellectual Property, in charge of coordinating the relevant public institutions and advising on IPR issues, was formally established in April 2008. Moldova engaged in a twinning project to support the implementation and enforcement of IPR. It also signed in July 2008 a cooperation agreement for the years 2008-2009 with the European Patent Office.

Moldova continued implementing, and raising awareness on, the 2007 law on **Public Procurement**. It adopted a number of supplementary legislative acts to this effect. A governmental Commission on Public Procurement was established in May 2008. The administrative capacity of the Agency for Material Resources, Public Procurement and Humanitarian Aid was increased over the reporting period. Public tenders are published on the Agency's website. As regards training, a Community-sponsored twinning project to the benefit of the Agency should begin in 2009. In March 2008, Moldova adopted an action plan for the free public procurement portal, which has been in place since January 2008 (see last report); the Government allocated approximately EUR 221,000 (MDL 3 million) for launching in 2009 a e-Procurement system with a view to moving to full e-procurement by 2010. Besides, Moldova benefits from a continuing observer status to the WTO Agreement on

Public Procurement (GPA) and started the procedure for GPA accession with the deposit of its offer in October 2008.

Moldova started implementing its National Strategy for Development of **Statistics** in 2008-2011 (approved in December 2007). The draft law on the general population census of 2012, elaborated by the National Bureau of Statistics, was submitted in December 2008 to the Government for approval.

As reported last year, the new **accounting and auditing** laws entered into force in January 2008. The new accounting law provides for the compulsory use of international financial reporting standards (IFRS) by public interest companies as from January 2009. The national strategy for development of accounting and auditing for 2008-2011 is still under preparation. The strategy will be based on the relevant EU Directives and IFRS. Still, the capacity of regulatory agencies for enforcing accounting standards should be reinforced. The Council of Auditors started its activity and works closely with the association of auditors. Finally, the Government approved draft amendments to the Audit Law in October 2008.

With regard to **public internal financial control** (PIFC), amendments to the law on Budget Systems and Processes were adopted in July 2008 (entering into force as of January 2009), providing a legal basis for PIFC including accountability arrangements for the management of public funds as well as for the implementation of a system of internal audit. As reported last year, a strategy for the development of public internal financial control in 2007-2009 was approved in January 2008, providing for the development of national public internal audit standards and a code of ethics for public internal auditors. An internal audit charter was also published in January 2008. Training and professional development activities, including awareness-raising in line with EU standards and methodologies, were also implemented. With the support of EU and international donors, implementation of the Strategic Development Plan of the Court of Accounts (2006-2010) continued, with the aim to develop a modern, functioning system of external audit. A revised law aimed at improving the functional and financial independence of the Court was adopted.

On **enterprise policy**, a renewed strategy for development of small- and medium-sized enterprises (SMEs) was prepared. As reported last year, the 2007 law on the Core Principles of Regulating Entrepreneurial Activities became effective in January 2008. It determines principles and mechanisms regulating business activity in order to ensure free trade and entrepreneurial activities, free competitiveness, and to create a favourable environment for economic development. In July 2008, the Parliament adopted a law on Public-Private Partnerships. Mechanisms for its implementation are being finalised. In May 2008, the Government launched and started implementing a wide training programme for companies with young entrepreneurs. The programme also includes a component on financing of rural investment through commercial loans with grant elements.

The implementation of the National Strategy for **Consumer Protection** (2008-2012) continued over the reporting period. As reported above, the Government adopted in June 2008 a decree on the State Main Inspectorate for Market Surveillance, Metrology and Consumer Protection. Further efforts are however needed to facilitate the activities of the consumers' organisations and the empowerment of consumers.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The **visa facilitation** and **readmission** agreements between Moldova and the EU entered into force in January 2008. At the same time, Estonia joined the Common Visa Application Centre in Chisinau which opened in April 2007. Sweden followed suit in April 2008. In 2008, the Centre issued 7,487 visas, a significant increase on 2007. Moldova worked actively to prepare the protocols to be signed with the EU Member States under the readmission agreement, and established a readmission fund.

In the area of **border management**, the Government decided in July 2008 on an integrated information system for the border guard service. A working arrangement between FRONTEX¹ and the Moldovan border guard service was signed in Chisinau in August 2008. In addition, a code of ethics for border guards was adopted in June 2008, the preparation of which was supported by EUBAM expertise. In July 2008, the Government adopted a plan on the development of border infrastructure in 2009-2011. EU assistance for the development of the border guard service continues under the framework of EUBAM. In terms of inter-agency cooperation, a bilateral cooperation agreement was signed with Lithuania in July 2008 while a study visit of Georgian border officials was hosted the same month. Cooperation with Ukraine on the joint customs regime and operational contact with the trilateral contact centre in Galati (Romania) have intensified. Moldova continued to participate actively in the Söderköping Process.

Moldova continued to update its **migration** legislation and in October 2008 it established a national integrated migration system to record the movement of Moldovan citizens across the State border. To support efficient management of migration flows, the EU and Moldova signed in June 2008 a pilot Mobility Partnership, under which a first Cooperation Platform was organised in November 2008. At the same time, Moldova adopted its action plan on the consolidation of migration management and asylum systems in 2008-2009. In July 2008, as reported earlier, a new law on Labour Migration was adopted. Furthermore, with ILO assistance, Moldova set up an information centre for migrant workers in Cahul (not far from the Romanian border). The temporary placement centre for illegal migrants, inaugurated in March 2008, is not yet fully operational yet, as the specific legislation allowing accommodation of irregular migrants was not adopted. Similarly, the national action plans for protection of Moldovan citizens abroad and for stimulation of migrants' return have not been fully implemented.

A new law on **asylum** (December 2008) aims to align Moldovan legislation with international standards. Moldova is one of the target countries of Regional Protection Programmes (RPPs). Within the context of RPPs, different EU-funded project activities were carried out which aimed to improve the situation of asylum seekers and refugees in Moldova.

With regard to the fight against **organised crime**, the Council of Europe Convention on Cybercrime, which Moldova signed on the date of its opening, has still to be ratified. The protection of human rights forms an inherent part of the fight against organised crime and efforts to enhance the awareness of law enforcement agencies on human rights in this respect would need to be enhanced.

¹ FRONTEX: European Agency for the Management of Operational Cooperation at the External Borders

In April 2008, the Parliament approved a national action plan on prevention and combating **trafficking in human beings** for the period 2008 – 2009. At the same time, the Government established a National Committee for Combating Trafficking in Human Beings, which strengthened its operational capacity with the progressive establishment of local committees. A new regulation on the repatriation of victims of trafficking was adopted in July 2008 by the Government, which is complemented by the implementation of a national referral system for victims, created in December 2008.

In addition, in May 2008 the Ministry of Internal Affairs, the Public Prosecutor's Office and the Ministry of Social Protection, Family and Child signed a memorandum of understanding with the International Organisation for Migration, the centre for prevention of trafficking in women, and the international centre "La Strada" to establish a cooperation framework between public institutions, law enforcement agents, civil society and donors on assistance to victims and potential victims and to improve access to care and protection for victims. The national centre for the rehabilitation of victims was transferred to the Ministry of Social Protection, Family and Child in July 2008. Cooperation with civil society alongside coordination with neighbouring countries needs, however, to be consolidated. The Council of Europe Convention on Action against Trafficking in Human Beings entered into force in February 2008. Effective implementation will require considerable capacity-building of law enforcement agencies.

The implementation of the national **drugs** strategy and relevant action plan for the period 2007-2009 is hampered by lack of trained human resources, financial means and technical equipment. The anti-drugs unit of the Ministry of Internal Affairs does not have adequate data on drug usage though noticeable success was achieved in 2008 with regard to seizures. Drug trafficking remains an issue of serious concern requiring an intensification of inter-agency law enforcement cooperation both nationally and regionally. Prevention and harm reduction actions in relation to drug addicts remain to be developed in the context of the implementation of an integrated approach towards the reduction of drugs' demand and supply.

In February 2008 the National Bank of Moldova amended its regulations on the implementation on anti-**money laundering** measures by commercial banks under the tax amnesty regime as required by the Council of Europe Moneyval Committee of Experts. Further legislative amendments to the law on money laundering and terrorist financing were drafted by the Centre for Combating Economic Crimes and Corruption (CCCEC) in October 2008. In May 2008 Moldova ratified the 2005 Council of Europe Convention on the Prevention of Terrorism (CETS 196) which entered into force in September 2008 and the country amended the anti-terrorist legislation and the Criminal Procedure Code improving the confiscation and asset equalisation regimes. Moldova joined the Egmont Group as a full member, participating in workshop meetings in October 2008. With Community assistance, the CCCEC published a guide on suspicious transactions for all reporting entities while in March 2008 it delivered training to securities and insurance companies followed by sessions for notaries and commercial banks in June and July 2008, respectively. In April 2008, anti-money laundering training was provided by the CCCEC to judges and prosecutors, while that delivered to the FIU and anti-corruption prosecutors in June- September 2008 resulted in the increase of initiation of criminal cases and the freezing of suspicious transactions (Following its ratification in September 2007, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS 198) entered into force in May 2008. Moldova is a member of MONEYVAL and has observer status within the Eurasia Group (EAG).

No major developments took place in the field of **police and judicial cooperation**. In particular, the earlier contemplated operational agreement with Europol was not signed. Law enforcement cooperation with EU Member States (Italy, France and Germany) continued in the context of individual bilateral agreements. Moldova has a permanent representative in the SECI Centre (Southeast European Cooperation Initiative) ensuring information exchange on relevant regional and trans-border law enforcement operations.

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

Moldova has restructured the **transport** sector governance, with both the Ministry of Transport and the Civil Aviation authority being dissolved. The State Roads Administration as well as the directorates of the former Ministry of Transport dealing with roads were moved to the Ministry of Construction and Territorial Development while the other directorates dealing with rail, inland waterways and the former Civil Aviation Authority were grouped into a new Agency for Transport.

Moldova experiences difficulties in fully implementing its land transport infrastructure strategy adopted at the end of 2007. While a limited number of projects were implemented under the 2008 budget, these were not necessarily the ones prioritised under the infrastructure strategy. Neither does the 2009 State budget include the necessary amount planned for road maintenance under the strategy. Road safety remains an issue of concern, in particular as regards drivers' training and certification. Due to the recent restructuring of the transport sector (where enforcement competencies still need to be fully clarified), there are also difficulties in enforcing regulations on driving times and rest periods.

The upgrading of the inland waterway port at Giurgiulesti port plays a pivotal role in the newly formulated inland waterways strategy approved by the Government in April 2008. During the reporting period Moldova adhered to a number of important maritime and inland waterway conventions. However the implementation of these requires further significant efforts.

In the aviation sector, Moldova could be considered as the next potential candidate in the region for participation in the Common Aviation Area. It continued to align its aviation regulations with EU standards, but there are concerns that the recent reorganisation of the aviation administration may delay the necessary strengthening of administrative capacity. Moldova has adopted plans to develop the airport of Marculesti into an air freight hub, but faces the considerable challenge of developing the necessary hinterland connections. Negotiations of Working Arrangements with the European Aviation Safety Agency started at the end of 2008.

Moldova and the EU further enhanced **energy** cooperation, in particular in support of the implementation of Moldova's energy strategy, *inter alia* by organising meetings with potential donors. Moldova will need to find considerable additional financial resources to implement the strategy. In January 2009, the Ukraine / Russia gas crisis led to a temporary cut of Russian gas supplies to Moldova, which is fully dependent on such supplies. The EU provided emergency assistance, through the Community Civil Protection Mechanism, to alleviate the situation for the citizens.

In 2008, Moldova reorganised the energy administration and brought energy policy competence within the remit of the Ministry of Economy and Trade. Moldova made some

improvements to the investment climate, *inter alia* by preventing new debts to accumulate in the heat sector and to cancel debts owed by combined heat and power stations to Moldova Gas. It also pursued studies to address historical energy debts, which are a major obstacle to investments. A large share of these debts was accumulated in Transnistria. In 2008, the European Commission facilitated an agreement between the National Energy Regulatory Agency and Union Fenosa Moldova on electricity tariffs. Moldova made progress concerning its draft electricity and gas laws, based on comments provided by the European Commission and continued strengthening the ANRE. Moldova further improved bill collection rates and adopted legislation on metering and billing as well as on cushioning the impact of price increases on vulnerable consumers. Energy prices were adjusted but remain distorted. In November 2008, Moldova and the European Commission opened negotiations on the country's accession to the Energy Community Treaty, which includes commitments for gradual convergence with the internal energy market rules. The country participates, as an observer, in the work of the Energy Community.

Regarding energy infrastructure, Moldova assessed the modernisation costs of CET-2 thermal power plant and continued work on the future construction of an oil refinery at Giurgiulesti oil terminal. It rehabilitated domestic electricity networks which contributed to reducing network losses, constructed the electricity interconnection Gotesti-Falciu (Romania) and studied the feasibility of the Balti-Suceava (Romania) electricity interconnection. The UCTE (the interconnected electricity networks of continental Europe) took preparatory steps regarding a study on the legal, technical and practical conditions for Moldova's and Ukraine's future joint accession to the UCTE. In 2008, Moldova imported 70% of its electricity needs from Ukraine. The Russian-owned Cuciurgan power plant, located in the Transnistrian region, started exporting electricity to Romania and, as from January 2009, resumed electricity supplies in the country beyond Transnistria. Moldova consolidated its position as a gas transit country for Russian gas to the Balkans, as was highlighted by the January 2009 gas crisis. It continued the construction of distribution networks, put into operation the Tocuz-Cainari-Mereni gas pipe and started the construction of the Balti-Ungheni gas pipeline. Work on a new energy efficiency law and action plan continued in 2008. The energy efficiency agency is not yet operational. At regional level, Moldova continued its participation in the "Baku Initiative" for EU-Black Sea / Caspian energy cooperation.

Moldova continued preparing its second national communication on **climate change**, which will include a study on vulnerability and adaptation to climate change, a greenhouse gas inventory, national mitigation strategy and an adaptation plan. Moldova took steps to prepare and approve further Clean Development Mechanism (CDM) projects. Four of the ten Moldovan CDM projects have been registered at the UN level. The European Commission continued to support Moldova to implement the Kyoto Protocol. Moldova has not yet adopted a formal position regarding the post-2012 regime.

Moldova took steps to initiate a review of its 2001 concept of **environmental** policy. The NDS promotes measures to prevent pollution and more efficient use of natural resources. The legislative framework continues to require further development, in particular as regards implementing legislation. Secondary legislation was adopted on wastewater discharges and environmental taxes for certain imported goods. A new environment framework law, a water law and a waste management law are under preparation. No strategies or plans were however adopted in 2008. Work continued to develop a national programme on the ecological network as well as to implement the existing strategies and plans, but continued attention is required in particular as regards water. Efforts are also needed to enhance monitoring as well as enforcement.

The Ministry of Environment and Natural Resources (MENR) recruited new staff and prepared its institutional development plan for 2008-2011. Further strengthening of administrative capacity at all levels of the country is still a major challenge. Coordination between authorities requires attention. Some activities took place to integrate environment considerations into other policy sectors such as transport and agro-industries. A draft strategy on strategic environmental assessment was prepared. The MENR decided to publish state-of-the-environment reports only every three years. It nevertheless continued to publish other information on a regular basis, even if the requirements of the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters are not yet fully incorporated into legislation. Involvement of civil society representatives requires therefore attention. Moldova continued reviewing its environmental impact assessment (EIA) legislation, as it was mainly applied to donor-funded projects. Some steps were taken to promote implementation of strategic environmental assessment. An action plan on environmental education was agreed between the Ministry of Education and Youth and the MENR. The Moldova Regional Environmental Centre continued its activities, although limited in scope, focusing on awareness raising, promoting EU environment policy and legislation and encouraging cooperation between various stakeholders. Moldova did not make significant progress in the ratification of remaining relevant UNECE protocols². Furthermore, the implementation of several already ratified agreements requires particular attention. Initial steps were taken to prepare a Danube Delta analysis report. Preparations for signing the Nistru (Dniester) river agreement with Ukraine are still on-going. Moldova participated in the Danube - Black Sea Task Force (DABLAS), in the EU Water Initiative, including a national policy dialogue, and the International Commission for the Protection of the Danube River. Cooperation and information exchange took place between the European Commission and Moldova, including on water quality, forestry, waste management and environmental data. Other topics, such as water supply and sanitation and air quality were identified for possible closer cooperation.

The Community **Civil Protection** Mechanism was mobilised in August 2008 to support Moldova in assessing the flooding of the Nistru (Dniester) and the Prut rivers, and in January 2009 in alleviating the consequences of the Ukraine/Russia gas crisis. Moldova and the European Commission discussed the possibility to negotiate a bilateral administrative arrangement on closer co-operation in the field of civil protection.

In the area of **information society**, the Ministry of Information Development is finalising a “Strategy for the ICT Sector Development in 2009-2011”. Moldova also launched a pilot governmental portal for the promotion of online services like e-government and e-commerce. The fixed line operator started to provide free Internet access for all public schools.

In March 2008 the former National Regulatory Agency for Telecommunications and Informatics (ANRTI) was reorganised and became the National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI) after the new Law on Electronic Communications had come into effect. In order to implement this law, the ANRCETI has issued the following secondary legislation: regulation on general authorisations and licences for the use of scarce resources for public electronic e-

² The Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context, and the Protocol to Abate Acidification, Eutrophication and Ground-level Ozone to the UNECE Convention on Long-Range Trans-boundary Air Pollution.

communications services, regulation on the management of the national numbering plan, regulation on dispute resolution, regulations on control procedures for e-communications services and on procedures for granting technical authorizations for the operation of radio communications stations, including authorization procedures for the National Centre for Radio Frequencies. Furthermore, ANRCETI issued licences to the three operators for frequencies to provide Third Generation mobile services (3G).

In December 2008, the decision, later suspended, to interrupt the licence of the private PRO TV channel, questioned the independence of the national broadcasting regulator in practice, and furthermore put to the fore the issue of compliance of Moldova's **audiovisual** legislation with EU standards.

Investment in **Research and Innovation** remains at relatively modest levels. In May 2008 Moldova formally expressed its interest to discuss the terms and conditions of its possible association to the 7th research framework programme (FP7). The Academy of Sciences (which is responsible for the implementation of FP7 in Moldova), has been involved in preparatory technical discussions with the European Commission services, which led both sides to conclude that a later association should be well prepared, in particular through information and capacity-building measures to allow Moldova to reap the full benefit of such an association. Meanwhile the participation of Moldova in FP7 has slightly increased compared to its participation under FP6, mostly under the 'Capacities' and 'Marie Curie' calls for proposals. However, the overall number of applications is however still comparatively low.

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

Moldova adopted a new **education** codex in October 2008 while the Ministry of Education and Youth also established a civil society forum to collect and evaluate feedback on the former. In line with its commitment under the Bologna Process, Moldova moved towards greater harmonisation with EU standards in higher education, elaborating a normative framework for the organisation of masters study programmes. In September 2008, the ministry implemented a credit system based on EU standards and established a specific department for accreditation to oversee its operation. Furthermore, a national qualification framework is under preparation further advancing Moldova's alignment to European approaches. Moldova should consider membership of the European Quality assurance register (EQAR) which may assist in this regard. In September 2008, Moldova also participated in a conference on qualifications frameworks, hosted by Armenia in cooperation with the Council of Europe.

Higher education reform continued to benefit from participation in Tempus with nine Moldovan projects selected under the first Call for Proposals for Tempus IV in the areas of innovation, technology and environment. Six Moldovan students received scholarships under Erasmus Mundus for the academic year 2008-9 while student and academic mobility was further enhanced through participation in the Erasmus Mundus External Cooperation Window. In addition, nine Moldovan students received scholarships in European integration studies at masters level under a special pilot project for the academic year 2008-2009. Such possibilities should also been extended in future to graduate students from Transnistria-based universities.

In the area of **vocational training**, reform continued in line with the 2007 national strategy with broad donor support. Greater attention is being paid to meeting the demands of the labour market through cooperation with both the Ministry of Economy and Commerce and the Ministry of Social Protection, Family and Child aiming to identify and match training provision to core employment needs.

Youth organisations and young people continued to benefit from participation in the Youth in Action Programme with a particular interest in voluntary service activities. In order to optimise benefit from the programme, additional resources would need to be invested in improving access and disseminating information on the opportunities it offers, particularly in rural areas, in the context of linkages and synergies with cross-border cooperation.

In the area of **culture**, Moldova organised seminars and other information events in order to promote and publicise its implementation of the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. In addition, Moldova ratified the Council of Europe Framework Convention on the Value of Cultural Heritage for Society in September 2008. Preservation of cultural heritage is a main priority with less attention to the promotion of cultural innovation and development. The independent culture sector is chronically under-funded and marginalised in terms of influence on cultural policy-making. Equal opportunities in terms of access to State funding for all cultural producers active in the field would be advised.

In August 2008, a National Strategy for the Development of **Civil Society** in 2008-2011 (later endorsed by the Parliament) was signed between the Government and a group of 33 civil society organisations. In September 2008, as reported above, a National Council for Participation held its constituent meeting. Once formally established, it will provide the institutional framework for consultation between civil society, including economic operators, and public authorities at all levels of government.

Moldova continued reform of its **health** sector *inter alia* in the context of the national health policy 2007-2021 and the action plan on the implementation of the national development strategy, which was adopted in February 2008. The country drafted an action plan to implement the international health regulations. Moldova continued the fight against communicable diseases including HIV/AIDS and the growing burden of tuberculosis. It expressed interest in cooperating with the European Centre for Disease Prevention and Control. After ratification in December 2008, Moldova acceded, in February 2009, to the Framework Convention on Tobacco Control. Moldova continued its participation in the EU network of competent authorities in health information and knowledge and in the European Commission's HIV/AIDS think tank. It chaired the South-eastern Europe Health Network in the first half of 2008. The Neighbourhood Investment Facility under the ENPI co-financed, as a first-ever social project, the modernisation of a hospital in Chisinau.

8. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES

The ENPI financial envelope under the National Indicative Programme for Moldova 2007-2010 is EUR 210 million. The four-year programme is geared towards supporting the achievement of key policy objectives outlined in the ENP Action Plan and supports democratic development and good governance; regulatory reform and administrative capacity building; and poverty reduction and economic growth. The ENPI builds on results achieved through previous Community financial programmes, such as the Tacis programme, which

financed key reforms in the justice sector, export and investment promotion, regional development, health system, the establishment of a new social assistance system, among others. Modernisation of the border control management system, the fight against trafficking in human beings and small-scale rural development projects were also financed through the Tacis regional and cross-border cooperation programmes.

With the introduction of ENPI, budget support became an aid implementation modality available to Moldova. Since then, the EU has channelled increasing amounts of funds through this modality, which helps strengthening the policy dialogue with the EU and gives to the country more ownership and flexibility in implementing key sector reforms. From the EUR 40 million financial envelope for the ENPI Annual Action Programme 2007, EUR 21 million were used for a budget support operation aiming at modernising the social assistance system. The key benchmark for that reform is the progressive introduction of a needs-based system of cash benefits for the poorest layers of the Moldovan population. EUR 11.5 million were disbursed in 2008 under this social sector budget support. Other projects financed under the Annual Action Programme 2007 for Moldova are the establishment of a new radio-communication network for the Moldovan border guards, an innovative project for building up civil society cooperation across the Nistru River, and sectoral technical assistance and twinning.

The ENPI Annual Action Programme 2008 (EUR 45.7 million, topped up with EUR 16.6 million from the Governance Facility) was allocated to a large (EUR 46.6 million) budget support operation for the modernisation of the primary health care system, to a project on border and migration management (EUR 10 million) and sectoral technical assistance and twinning (EUR 5.7 million).

New cooperation tools such as twinning and TAIEX have become operational. One twinning project providing support to the Parliament is on-going, while in the fields of penitentiary management, sanitary and phyto-sanitary norms, protection of intellectual property rights, competition policy and public procurement, twinning projects are under preparation. The TAIEX instrument was intensively used in 2008. Moldova also benefited from the ENPI multi-country, regional, and cross-border cooperation programmes.

Two cross-border co-operation programmes, in which Moldova participates, were adopted in 2008: the Romania-Moldova-Ukraine programme 2007-2013 (EUR 126.72 million) and the Black Sea basin programme 2007-2013 (EUR 17.31 million). Within the framework of the Romania-Moldova-Ukraine programme, nine beneficiaries signed contracts in August 2008. In May 2008 a transnational cooperation programme for South Eastern Europe, to which Moldova was admitted using European Regional Development Funds (ERDF), was launched.

In 2008, the Board of the Neighbourhood Investment Facility (NIF) decided to provide grant support to four projects for a total contribution of EUR 19.75 million, expected to leverage approximately EUR 158.5 million in loans from a consortia of European financial institutions. In December 2008, the Moldovan government signed the Financing Agreements on a EUR 12 million grant to support the 'Road Rehabilitation project (phase 2)' co-funded through a EUR 35 million loans by the EBRD and the EIB; and on a EUR 3 million NIF contribution to the project 'Capacity assessment and modernisation of the Republican Clinical Hospital' (Chisinau), co-funded by a EUR 9 million loan from the Council of Europe's Development bank. Finally, Moldova benefited also from a Macro-Financial Assistance programme (EUR 45 million in 2007-2008), whose third tranche (EUR 15 million) was transferred to the State Treasury in December 2008.

Moldova substantially improved its external aid coordination mechanism in 2008. In the spring, an Aid and Policy Coordination Unit was created under the Prime Minister. This has improved the policy dialogue and the national monitoring of EU programmes and projects. However, insufficient staffing and too wide a mandate going well beyond coordination of EU external aid, are serious constraints that the new Unit needs to overcome.