



Press communiqué

Launch of the Euromonitor Report for second quarter of 2007

Chisinau, 31 July 2007

On 31 July 2007, Association for Participatory Democracy ADEPT and the Analytical Centre EXPERT-GRUP launched the 7th issue of the quarterly analytical publication Euromonitor. The report is published with the financial support of the Soros Moldova Foundation within a project implemented jointly by the two organisations and entitled „EU-Moldova Action Plan: a Document Accessible to the Public (II)”.

The aim of the Euromonitor is the independent and unbiased monitoring of the process of implementation of the EU-Moldova Action Plan. The measures adopted and applied by the Republic of Moldova in the 2nd quarter of 2007 are analysed. The implementation of the Action Plan provisions in the following main fields was monitored: Democratic institutions; Strengthening administrative capacities; Transnistrian conflict settlement; The judiciary; Economic development and reforms; Social development and reforms; International trade; Business climate; Market institutions; Border, migration and human trafficking.

In the second quarter of 2007, the main development in the **political dialogue** between Moldova and the EU was the 9th meeting of the EU-Moldova Cooperation Council. The meeting singled out the need for Moldova to double its efforts towards implementing democratic reforms in several relevant areas. An important development has been the launch of the Common Visa Application Centre. Additional efforts are necessary to determine as large a number of European states as possible to join the centre, as well as to implement the Agreement on readmission of persons with no right of residence and the Agreement on the facilitation of visa issue. Both agreements were initialled by Moldova and the EU.

The process of Transnistrian conflict settlement has played a key role in the Moldova-EU political dialogue. The actions and discourse of the Moldovan authorities during the period covered here are serious reasons for concern. We consider it necessary for the Moldovan authorities to bring all discussions back into the existent formats, inform and consult fully and in due time the EU and the other partners on all actions taken, initiate public debates on the so-called Moldovan „package of proposals” on Transnistria. Should the current approach persist, the important progress achieved as a result of the political, diplomatic and technical assistance from the EU risks being compromised, as does in a broader sense the entire Moldova-EU political dialogue.

In the second quarter of 2007, moderate progress has been achieved in the field of **democratic institutions**. Some of the problems signalled in the previous issue of this report have persisted. Cases of human rights violations were recorded, a number of laws in the field were delayed, the concerns regarding the mass media have remained valid, and the access to information has continued to be limited. Moldova was condemned in 10 more cases by the ECHR. The June 2007 local elections have brought back to attention the main issues raised in relation to the parliamentary elections of 2005. Certain improvements were registered in the second round of elections on 17 June, as compared with the first round on 3 June 2007. Moderate progress was achieved through the merger of the trade union movements into a single one, as well as the development of the dialogue between the authorities and the Council of Europe.

Although the authorities have paid increased attention to the formal aspects of the reforms intended to strengthen **administrative capacities**, the effects of these reforms and efforts are still

hardly visible or tangible. The modernisation of the *central public administration* is being undertaken too slowly, no strategic approaches or systemic, well planned and organised mechanisms are being applied. The campaign for the local elections has affected negatively the process of reform and consolidation of the *local public administration*, the reforms being suspended in favour of the electoral competition. The problem of *de-politicisation* of the central and local public administrations is treated indifferently and even neglected by the central authorities, the aim of holding to power at any price has led to an aggressive attitude of the ruling party towards the contestants and local elected officials on behalf of other parties. In parallel, the trend of total political control over the central power has deepened. Although in the sphere of *anti-corruption fight* efforts have been stepped up, these seem to be due more to fulfilling the requirements put forward by international projects than by the sincere will of the authorities. The issue of „high level corruption”, although a priority, is not sufficiently tackled, and sometimes is neglected in a demonstrative manner by lack of any reaction to the signals about various abuses by officials. *Probity and transparency* of governance has reduced, no alternative means of information on the work of Parliament, Government and other central and local authorities have been put into application, important draft legislation in the field were given up intentionally, without public justification.

In the field of ***cooperation for the Transnistrian settlement***, the lack of transparency and clarity of Moldova's actions and channelling of efforts through the Moldovan-Russian dialogue, outside the existent formats, has run counter to the commitments assumed by Moldova within the EU-Moldova Action Plan and have caused serious damage to Moldova's credibility. The „5+2” negotiations mechanism has remained blocked, and EU's efforts were aimed at understanding the situation and bringing the discussions back into the „5+2” format. The most important progress has continued to be achieved in the field of management and control of the Moldovan-Ukrainian border, including the Transnistrian segment. The further simplification of access of Transnistrian companies to the European commercial preferences has created new opportunities for the reintegration of the single economic space of Moldova.

The ***judiciary*** registered no significant developments that would have consolidated the independence of the magistrates and the efficiency and transparency of their activity. On the contrary, the neglect of the Supreme Council of Magistrates as a body of judicial self-administration, the intentions of cancelling the immunity of judges, the evolution of earlier cases and certain demonstrative actions by the authorities have all shown the persistence of political pressure not only in terms of appointment and promotion of judges, but also on the examination of cases proper. The prolonged examination of cases, the increase in the number of sentences and in the quantum of sanctions imposed by the ECHR, the large number of judgements cancelled by instances of higher level have continued to damage the image of the judiciary. The fact that the Prosecutor's Office continues to be outside of the system of magistrates, the control of the ruling political power over the leadership of the prosecution bodies does not ensure all conditions and premises necessary for the independence of prosecutors and their abiding by the law only. The start of activity of the National Institute of Justice is a positive indicator, but the financial and technical-material endowment of the judiciary remain insufficient. Although considerably late, the adoption of the Law on Mediation is an important step in promoting alternative solutions to litigations; however the actual enforcement of its provisions may constitute a serious test for the entire judicial system of Moldova.

In the field of ***economic development and reforms***, although in the first half of 2007 GDP growth in Moldova amounted to 7.3% compared with the same period of last year, we cannot speak of a sustainable economic development. The growth has been generated in particular by the increase in household consumption. Financial transfers from abroad registered a sustained growth and reached 381.7 mln. USD, making Moldova a leader in terms of proportion of remittances to the GDP. At the same time, the volume of production manufactured by industrial enterprises in January – April 2007 decreased compared with the same period of 2006, the production has increased only in April if compared to last year. From the same perspective, prices grew slowly, in June the inflation was 0, while in the first half of 2007 it was 3.9. NBM will increase monetary reserves as a result of an IMF instalment, which will contribute to macroeconomic stability and economic development. A law entered into force amending and introducing additions to

certain legislative acts with a view to the legalisation of capitals, fiscal amnesty and the reform of the system of taxation of legal entities' incomes. The law caused fierce debates since it was proposed by the President of Moldova.

The most important positive development in the field of **social development and reforms** that will have beneficial results on the social dialogue on labour has been the merger of the two trade union federations. But the capacity of the new structure to defend the interests of workers will depend primarily on the degree to which it will remain independent from the power. Social protection progressed through the introduction of some minimal standards for care, education and socialisation of children from residential type institutions. At the same time, we believe that the efficiency of the implementation of these standards will only be boosted after the inter-ministerial redistribution of competences. In the second half of 2007, the Government adopted a Programme of rehabilitation and social integration of people with disabilities, which unfortunately is unlikely to be implemented, given the constraints of the „available financial sources”. In the educational sector, the most controversial decision was to limit the number of places per specialities, which was criticised even by the Chairman of Parliament. We need to mention that in the health sector a number of positive developments were registered. The line ministry has demonstrated surprising analytical and political planning capacities, including budget planning, which other ministries in the social sector lack. The Parliament ratified the Framework Convention of the World Health Organisation on the reduction of smoking. At the same time, corporate pressures proved to be powerful enough to underestimate the implementation of a genuine national campaign against smoking.

Contradictory trends were recorded in the field of **international trade** in the second quarter of 2007. On the one hand, the commercial balance continues to worsen against a background of increasing disparity between the growth rates of imports and exports. On the other hand, exports to the EU have grown dramatically, thus diminishing the effects of the reduction of exports to the CIS. In this context, apparently a solution to the „wine embargo” is taking shape, however it is very unclear in what format it will happen. With regard to the granting of European Autonomous Commercial Preferences to Moldova, no significant progress was registered, this issue being the subject of discussion inside the EU. We would like to note progresses registered in the field of phytosanitary norms, a series of such norms having been approved by the Ministry of Agriculture and Food Industry with a view to harmonisation with the acquis. We would like to remind that the adoption of these norms is an essential precondition for Moldova's use of the ATPs.

In terms of the **business climate**, after the successful implementation of the first stage of the regulatory reform, the term of implementation of the second stage (Ghillotine II) was extended until the end of 2007. Modifications to 84 laws regulating business activity in Moldova were revised or amended. The Organisation for the Development of Small and Medium Enterprises was set up with the purpose of implementing the strategies and programmes of SME support. Through Government Decision no 756 of 2 July 2007 the Mid-term Expenditure Framework for 2008-2010 was approved, which provides for changes in the state fiscal policy regarding the taxation of the income reinvested for legal entities, income of physical entities and changes in the social insurance quotas and in the obligatory medical insurance payments. Since in the first four months of 2007, state budget revenues were 16.7% above forecasts, the 2007 State Budget was amended, more funding being allocated for wages in the public sector and transfers to territorial-administrative units.

In the field of **market institutions** the new law on insurances entered into force in the second half of 2007. The law regulates in much greater detail the conditions for the establishment and functioning, as well as the principles of financial prudence for insurance companies. However, for laws to be enforced, a competent, powerful and independent institution is necessary. This institution could be the National Commission for the Financial Market, set up through the amendment of the Law on the National Commission for Transferable Securities. The competencies of the commission are to a great extent similar in scope and function to the ones attributed to the NBM on the market of financial banking services. At the same time, it is clear that the Commission could execute its powers only if staffed with professionals. In the banking sector, the positive trends of consolidation of the banking system have gone hand in hand with the negative ones of growing interest rates on credits. All the more so as this growth has occurred after the NBM

launched encouraging messages for banks by reducing the rate of its basic interest (REPO). In the energy sector the evolutions were contradictory. On the one hand, the Government announced the conclusion of the new Energy Strategy for 2007-2020. On the other hand, all important energy enterprises were eliminated from the privatisation programme and were classified as objects that are not subject to privatisation. In our view, there are neither economic reasons nor reasons of national security that would justify such a decision.

In the field of **border control** important progress was achieved in consolidating the capacity of customs and border services, continuation of the structural and management reforms of these services and taking over best European practices as a result of the activity of the EU Border Assistance Mission to Moldova and Ukraine and the BOMMOLUK Programme. Moderate progress was achieved in harmonising the legislative framework to the provisions of the 2003 Concept on the state border control. Efforts were taken with a view to consolidating the inter-agency cooperation and cooperation at regional and European level among border guard and customs services.

An important development in the field of **migration** was the conclusion of the process of reorganisation and the exercise of competences by state structures responsible for the evaluation and monitoring of the phenomenon of migration. The prerogatives of the former National Migration Office, dissolved in 2006, are exercised by the Office for Migration and Asylum based at the Ministry of Interior and the Migration Policies Department at the Ministry of Economy and Commerce. As a result of these institutional changes, it has become possible to launch new common projects with specialised international organisations and assistance agencies. The set up of the *Integrated Automated Information System on Migration* may be considered as an accomplishment in this field. Other progresses registered in this field has been the set up and launch of the European Common Application Centre and the initialling of the Agreement on readmission of persons with no right of residence and the Agreement on the facilitation of visa issue between EU and Moldova, both agreements are to enter into force by end of 2007.

The fight against **human trafficking** has registered relative improvements, compared to previous periods. One example are the operative information and press communiqués of the Centre for the Fight against Human Trafficking, which render information about the counteraction and annihilation by law enforcement bodies of criminal groups involved in human trafficking. Moreover, we observed intense activity by nongovernmental and state organisations in preventing human trafficking and assisting the victims through the organisation of seminars and workshops. However, the multitude of cases that were uncovered have shown that the gravity and scope of this phenomenon is still considerable, in particular in cases of trans-frontier trafficking.

A complete version of the 7th issue of Euromonitor and the previous issues may be found at www.e-democracy.md and www.expert-grup.org.