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**Implementation of reforms initiated accordingly to EU-Moldova Action Plan,
Assessment of progress in July-September 2009**

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Authors: Igor BOTAN
Corneliu GURIN
Oleg CRISTAL
Valeriu PROHNITCHI
Alexandru OPRUNENCO
Ana POPA
Adrian LUPUSOR
Victoria VASILESCU

Note: *The authors have drafted this report with goodwill and good intentions. The authors are solely responsible for their opinions and conclusions, which are not necessarily shared by the Soros-Moldova Foundation, Moldovan Government or other institutions mentioned in this report.*

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ABBREVIATIONS AND ACRONYMS

PCA – Partnership and Cooperation Agreement.
PACE – Parliamentary Assembly of the Council of Europe.
NBM – National Bank of Moldova.
NBS – National Bureau for Statistics of the Republic of Moldova.
CCECC – Centre for Combating Economic Crimes and Corruption.
CCTP – Centre for Combating Trafficking in Persons.
EC – European Commission.
CEC – Central Electoral Commission.
ECHR – European Court of Human Rights.
NIH – National Insurance House of the Republic of Moldova.
NCEI – National Commission for European Integration.
CoE – Council of Europe.
COEST – EU Council Working Group for Relations with Eastern Europe and Central Asia.
CHRM – Centre for Human Rights of Moldova.
CIS – Commonwealth of Independent States.
CVAC - Common Visa Application Center.
SCJ – Supreme Court of Justice.
SCM – Superior Council of Magistracy.
DPI – Department for Penitentiary Institutions.
EUBAM – European Union Border Assistance Mission to Moldova and Ukraine.
FAO - Food and Agriculture Organisation.
NIJ – National Institute of Justice.
MFAEI – Ministry of Foreign Affairs and European Integration.
MIA – Ministry of Internal Affairs.
MLPA – Ministry of Local Public Administration.
MID – Ministry of Information Development.
MJ – Ministry of Justice.
MSPFC - Ministry of Social Protection, Family and Child.
IOM – International Organisation for Migration.
OSCE – Organization for Security and Cooperation in Europe.
EUMAP – European Union – Moldova Action Plan.
ENP – European Neighbourhood Policy.
PGO – Prosecutor-General’s Office.
NAPHR – National Action Plan on Human Rights.
SPSEE – Stability Pact for Southern Eastern Europe.
CPA Reform – Central Public Administration Reform.
LPA Reform – Local Public Administration Reform.
RM – Republic of Moldova.
EGPRP – Economic Growth and Poverty Reduction Strategy Paper.
BGS – Border Guard Service.
CS – Customs Service.
EU – European Union.
UNFPA - United Nations Population Fund.
USD – U.S. dollar.

Political dialogue and democratic institutions

The political dialogue in the third quarter of 2009 has been characterized by the institutionalization of the new administration in Chisinau and resuming, at a faster pace, of relations between the Republic of Moldova and the European Union. The Government sets the European integration as the main objective of its program, and consequently this implies reforms in all problematic areas in the country in compliance with the Acquis Communautaire. The recent elections for the European Parliament led to a change in the nominal composition of the EU-Moldova Parliamentary Cooperation Committee. In this period, European parliamentarians continued the assessment of the early parliamentary elections in Moldova and at the end of September – beginning of October, the Parliamentary Assembly of the Council of Europe approved a new Resolution on the functioning of democratic institutions in Moldova, referring, among others, to the recent parliamentary elections. Besides, in the third quarter of 2009 was decided to extend the mandate for the EU Border Assistance Mission to Moldova and Ukraine for two more years. It was also decided that several more EU member states will join the Common Visa Application Center.

The area of „Democratic Institutions” has been characterized by a post-election debate and a debate on the consequences of the April 7-8 riots. The new Chisinau administration pledged to investigate all acts of abuse and violence committed by the law enforcement bodies during the April protests, and later a Parliamentary Commission to investigate the April events will be set up.

Strengthening the administrative capacity

The post-election political conflict, the new election campaign and the tedious process of constituting a new central authority have affected the administrative reform, and along with the effects of the economic crisis, have all weakened the stability of the governing policy. However, the new parliamentary majority managed to take appropriate measures to impede the deepening of political and economic crises. The earlier started projects have been implemented at a slower pace or been suspended, in the hope of their resuming by the new government.

Transnistrian conflict

During the examined period, the process of forming a new Government in the Republic of Moldova has passed the efforts for the Transnistrian conflict settlement into the background. However, representatives of the parties involved in the „5+2” talks on the Transnistrian conflict settlement have encouraged the political parties within the Alliance for European Integration to „reach a compromise for creating a structure to take over the Transnistrian case”. The abolition of the Ministry of Reintegration by the new Moldovan authorities has raised neither discontent, nor approval from the Transnistrian administration. representatives of the Transnistrian diplomacy noting that the abolition of the Ministry of Reintegration does not have any meaning for them, since Transnistria has never collaborated with this institution.

Justice

The situation in the area of justice did not register any major developments or involutions. Some actions continued to unfold mostly due to foreign assistance. A slight improvement in the execution of court decisions was recorded. Earlier planned reforms and actions have not been implemented because of financial or technical impediments. The numbers of cases increases, most judges are overloaded, and their number is not being increased. The justice financing strategy is not being promoted.

Economic development and reforms

The negative economic trend continued in the 3rd quarter, showing a further decrease in retail sales in addition to the decline in population income and the recession in industry and other branches of the economy. As a result, these reflected in the labor market by an increase in unemployment rate and a reduction of average wage in the economy in July and August. The impact of the economic crisis was intensified by some governmental actions which, considering a decline in budget revenues, have increased the state’s debts to the economic agents for VAT and excise duty reimbursement and have exercised pressure for collecting penalties and other administrative payments. The political instability and government-related uncertainties in the 3-rd quarter impeded taking some measures for supporting the economic agents. Their backwardness and the worsening budget system situation make the new government to be unlikely to meet the exaggerated expectations of the economic agents. The only noticeable actions envisaged the relaxation of monetary policy by a reduction in the basic interest rate and in the compulsory reserve requirements. However, their impact did not meet the expectations. Although the nominal loan rate at commercial banks decreased, the actual rate remains at the level of February 2009.

Social development and reforms

In July-September 2009 the area of social development and reforms did not face any significant changes at the legislative level, given the election period and the worsening country’s political climate. One could note a series of delays on the decisional level, especially with regard to gender equality by postponing the approval of the draft national policy for ensuring gender equality, as well as the relevant medium- and long-term action plans for its

implementation. Once the new government is operational, it will resume the discussion and eventually approve the national policy in this area. Among the notable subjects during this period one could outline the approval of the Statement concerning the social-economic situation in the Republic of Moldova and necessary actions to cushion the effects of the crisis. The approval of this statement by the new Parliament is very important, as a proof of the current administration's capacity to recognize the existent problems, particularly the social ones, including the remuneration of budget employees. Regardless of the legislative initiatives undertaken during the examined period, the major concern is the lack of financial means that cannot be covered by internal sources.

Business climate

During the 3-rd quarter, similar to the previous one, the business climate in Moldova was strongly influenced by the country's economic recession and political situation. Due to a defective functioning of the executive and legislative branches and the effects of the economic crisis, the Republic of Moldova faced the phenomenon of disinvestment (flow of direct foreign investments out of the country). At the same time, enterprises with foreign capital registered losses, and among them - commercial banks – an unprecedented case till now. Companies with Russian capital incurred the biggest losses. Contrary to the expectations regarding the impact of imposing the visa regime for Romanian citizens, companies with Romanian capital registered profits in the 2nd quarter and their social subscribed capital increased. It is most likely that the tendency of the 2nd quarter will keep on. At the same time, the major developments during the period examined are related to the advancement of the Republic of Moldova by 14 positions in the new World Bank report „Doing Business 2010”, as well as a few important measures taken by the current government to mend the faults of the previous administration. These refer first to abolishing the visa regime for Romanian citizens, fact that represents a positive message and an auspicious sign for the whole business community.

Foreign trade

As regards foreign trade, one could note developments that cannot be considered univocal. Thus, the commercial relations with the EU are developing at a fast pace and the EU market strengthens its position of main target for Moldovan exports. Moldovan exporters have used fully or almost completely the quotas offered by the EU for several products during the first nine months of 2009. At the same time, little progress in adopting the European standards crucial for food security, as well as keeping the inner barriers for trade have impeded a better development of Moldovan trade on this market. Besides, the trade relations with Romania have entered a somehow downward tendency, being affected by the global economic crisis, exports' structure and political tensions in the 2nd quarter, leading to a less beneficial framework for bilateral economic cooperation.

Political dialogue: general overview

- The Parliamentary Assembly of the Council of Europe (PACE) urges the Committee of Ministers and other structures of the Council of Europe to draw up a package of collaboration programs for supporting the Republic of Moldova in strengthening democratic institutions and ensuring the rule of law. This is also reported in the PACE Resolution "Functioning of the democratic institutions in Moldova, implementation of Resolution 1666 (2009)", adopted on October 2 in Strasbourg¹.
- On September 29-30 Vlad Filat, Prime Minister of the Republic of Moldova, together with Iurie Leanca, Vice Prime Minister, Minister of Foreign Affairs and European Integration paid a working visit to Bruxelles, where they met with leaders of the most influential political groups of the European Parliament (EPP – European People's Party, ALDE – Alliance for Liberals and Democrats for Europe and PASD – Progressive Alliance of Socialists and Democrats)². The officials also met with the Energy Commissioner, Andris Piebalgs³. The Moldovan officials had discussions with the Vice President of the European Commission for Justice, Freedom and Security, Mr. Jacques Barrot, who declared that the European Commission is ready to offer the necessary support to the Republic of Moldova for streamlining the reforms in the area of justice and domestic affairs⁴. The Moldovan officials also met with Mrs. Benita Ferrero-Waldner, European Commissioner for External Relations and European Neighborhood Policy⁵. As a result, the parties signed a Financing Agreement on "Technical Assistance and Twinning in support of the implementation of the EU-Moldova Action Plan" (within ENPI 2009), worth 7 million Euro. Vlad Filat presented the priorities of the newly appointed Moldovan Government to the European deputies, answering a number of questions⁶.
- The European Union welcomed the appointment of the new Government of the Republic of Moldova just a few hours after the event in Chisinau⁷. José Manuel Durão Barroso, European Commission President, has sent a congratulatory message addressed to Republic of Moldova's new Prime Minister⁸.
- The European Commission will provide technical assistance in the area of intellectual property rights, as part of harmonizing the national Moldovan legislation with the European standards. The assistance will be offered by the Danish Patent and Trademark Office for a period of two years, as part of a Twinning project financed by the EC.
- Starting October 1, 2009, the citizens of the Republic of Moldova can get short-term visas for Belgium and Finland at the Common Visa Application Center (CVAC) within the premises of the Hungarian Embassy to Chisinau. It was also announced that during the first months of 2010, Switzerland and Greece will join the Common Visa Application Center. Croatia and Slovakia started talks on joining the CVAC.
- The Ministry of Foreign Affairs and European Integration announced about concluding the implementation process of the "Call Center" project. The center will be open for inquiries to the general public and will focus on providing information and advice especially to Moldovan nationals abroad.
- At its first session, the new Moldovan Government abolished the decision regarding the institution of a visa regime for Romanian citizens. A few days earlier, on September 17, Mihai Ghimpu, in his position of acting President of the Republic of Moldova has signed a decree on abolishing the April 2009 decision of the Moldovan Government on the introduction of a visa regime with Romania.
- On September 17, during the meeting of the Delegation to the EU-Moldova Parliamentary Cooperation Committee, Romanian MEP Monica Macovei was elected as Chairwoman of the delegation. Right after taking the office, Monica Macovei pledged to support the Moldovan authorities in fulfilling the commitments regarding the European integration of the Republic of Moldova.
- On September 10 the European Commission delegated an expert to consult the Ministry of Finance on the management of public finances in crisis situations. Peter Griffin has already started his activity in Chisinau.
- On September 3, Mr. Marian Jean Marinescu, head of the European Parliament Observers' Delegation to

¹ The Resolution stresses that "urgent attention should be given to the electoral framework and the freedom of the media, as well as to the reform of the judiciary". The Assembly noted that the elections of 29 July „have changed the balance of Moldova's political forces and the political transition is taking place democratically and in compliance with the Constitution". The act calls upon "the new majority coalition and the opposition to engage in meaningful negotiations in order to break the deadlock and bring about the election of a president of the republic", underscoring that a " peaceful and successful alternation in power is the ultimate test of the maturity of the political system and of the quality of democracy in a country", <http://assembly.coe.int/Mainf.asp?link=/Documents/AdoptedText/ta09/ERES1692.htm>.

² Leaders of the political groups pledged to urge the European Commission to speed up the process of making available macro-financial assistance for the Republic of Moldova for overcoming the negative effects of the economic crisis and covering the budget deficit.

³ The European Commissary noted the conclusion of negotiations with the Republic of Moldova on the Energy Community Treaty and the prospect for Moldova to join TEC in 2010.

⁴ What concerns the liberalization of the visa regime, the European Commissary showed the willingness to promote the dialogue on the visa regime by giving impetus to the first stage of contacts between Moldovan experts with their EC counterparts and starting a dialogue on the visa regime issue.

⁵ The European Commissary underlined the importance of the negotiations' framework within the Partnership Agreement Republic of Moldova – European Union to that be launched until the year end. What concerns financial assistance, the Commissary Ferrero-Waldner reiterated the commitment to offer macro-financial assistance in the nearest future, especially given the consequences of the financial and economic crisis.

⁶ Several Euro parliamentarians stressed the necessity to provide the Republic of Moldova EU financial assistance for overcoming the economic crisis, particularly for covering the budget deficit. Moldova can benefit of support from the EU only if the country commits to further reforms for improving the social-economic situation.

⁷ "The appointment of the Government is an essential first step, which will enable Moldova to start tackling the critical challenges it faces, in particular, in the context of the world economic and financial crisis, and to streamline reforms. The European Union stands ready to support Moldova in these efforts and reaffirms its commitment to deepening and strengthening its relations with Moldova, including within the framework of the Eastern Partnership", says a declaration made by the Swedish President of the European Union – act that reiterated the EU's call on all political actors "to start a meaningful political dialogue in order to conclude the post-electoral political process, break the deadlock and bring about the election of a new President. Declaration by the Swedish presidency on behalf of the EU on the appointment of the Moldovan Government http://www.se2009.eu/en/meetings_news/2009/9/25/declaration_by_the_presidency_on_behalf_of_the_european_union_on_the_appointment_of_a_moldovan_government

⁸ The message of Mr. José Manuel Durão Barroso, President of the European Commission addressed to His Excellency, Mr. Vlad Filat, Prime Minister of the Republic of Moldova, http://www.delmda.ec.europa.eu/whatsnew/press_releases_ro.shtml.

the July 29, 2009 elections presented a Report on the July 29, early parliamentary elections in the Republic of Moldova to the Foreign Affairs Committee of the European Parliament. The report "highlights both violations and progress made during the two election campaigns"⁹.

- EU provided assistance to Moldova for fighting illicit trafficking of radioactive materials at the border. Starting 2010, the customs stations "Chisinau International Airport " and "Leușeni" will be endowed with equipment for detecting radioactive or nuclear materials, as part of a grant offered by the EU. The projects will be implemented over a period of 5 years.
- The EUBAM mandate has been extended for a period of 2 years, starting with December 1, 2009.

Democratic Institutions

Electoral Process

Progress:

- In October, the Central Electoral Commission made a post-electoral analysis of the April 5, 2009 parliamentary elections and the early parliamentary elections of July 29, 2009. The process included three successive inter-dependent events, aiming at coming up with a number of proposals and recommendations for the elections' organization and unfolding in the Republic of Moldova, as well as outlining a medium-term action plan for improving the electoral bodies' activity¹⁰.
- At the 18th Annual Conference of the Association of European Election Officials, the Central Electoral Commission commits to improve the mechanisms of drawing up voter rolls and to implement an electronic register of voters. At the same conference, foreign experts decided that the Republic of Moldova will chair the presidency of this organization until April 2010.

Shortcomings and problems:

- The following day after the July 29 early parliamentary elections, Javier Solana, EU High Representative for the Common Foreign and Security Policy welcomed the fact that the elections in Moldova "met many of the international standards, albeit some negative aspects persisted". He advised the Moldovan political forces to pursue reconciliation policy, including towards the election of a new Moldovan president¹¹.
- On July 30, the OSCE-led International Election Observation Mission for the early parliamentary elections in the Republic of Moldova, comprising representatives of the OSCE Office for Democratic Institutions and Human Rights, of the OSCE and the European Council Parliamentary Assemblies, and of the European Parliament presented their report with the findings and preliminary conclusions on the early parliamentary elections of July 29¹². The statement reads that the July 29 early parliamentary elections in Moldova have generally been well administered, allowing for a competition of political parties representing pluralistic opinions. "Many of the commitments to the OSCE and the Council of Europe have been fulfilled, whereas the campaign has been negatively influenced by a subtle intimidation and preferential treatment in mass media coverage of the event. The election process has underscored the need for continued democratic reforms to restore the public trust".
- The final report on monitoring the July 29 early parliamentary elections, released on August 25 by the Civic Coalition for Free and Fair Elections – Coalition 2009 qualifies the elections as "unfair and only partially free"¹³.

Human rights

Progress:

- The Minister of Justice, Alexandru Tanase, declared during the discussions held with plaintiffs who filed petitions to the European Court for Human Rights on the violation of human rights in the aftermath of the April 7 events that the new Government stands ready to sign a Statement acknowledging all violations perpetrated against Moldovan citizens who submitted complaints to the ECHR.
- The new Interior Minister, Victor Catan, declared at a press conference that the police has ill-treated and illegally detained the participants in the April protests in Chisinau downtown. „A special investigation Commission will be created within the Ministry of Internal Affairs to conduct an objective investigation on events following 5th April and to charge the perpetrators”, the minister noted.
- The Minister of Justice, Alexandru Tanase, held talks on October 12 with public institutions' representatives and phone operators on regulating the investigative framework, in particular that related to intercepting telephone calls in the Republic of Moldova in order to avoid the risk of an abusive interception.
- Members of the new Government will be able to hold double citizenship. The decision on this amendment to the Law on Government was adopted with the majority of votes on Thursday, September 17.

9 According to the report, "both legislative reforms, and meeting democratic standards are prerequisites for a future unfolding of elections". The European Deputy affirms that the violations registered during the elections on April 5th with regard to voting lists have not been tackled. The European representative also referred to the "administrative resources, pressure and intimidation tools used by the Party of Communists party during the election campaign". In his opinion, this report reveals "the impact of the EU involvement in assisting Republic of Moldova in the nearest future".

10 The findings were presented at an international conference, held on November 2-3, 2009.

11 Statement on the parliamentary elections in Moldova made by Javier Solana, EU High Representative for the CFSP, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/declarations/109463.pdf.

12 Statement of preliminary findings and conclusions made by the International Election Observers' Mission for monitoring the repeated parliamentary elections from July 29, <http://www.e-democracy.md/files/elections/parliamentary2009/statement-ieom-30-07-09-en.pdf>.

13 The Civic Coalition for Free and Fair Elections. Final monitoring report on the early parliamentary elections from July 29, http://promolex.md/upload/publications/en/doc_1251279044.pdf.

Shortcomings and problems:

- Amnesty International Moldova sent an open appeal to the Moldovan Parliament on October 6, calling for a speedy ratification of the Rome Statute of the International Criminal Court. The organization sent letters to all 101 deputies in the Parliament, reminding that the Republic of Moldova has not yet ratified the Rome Statute, despite the commitments made under the EU-Moldova Action Plan (2005-2008).

Prevention of torture. Rights of prison inmates

Progress:

- The new Government in Chisinau intends to transfer the penitentiary institutions from the jurisdiction of the Ministry of Internal Affairs to the Ministry of Justice.
- The Minister of Justice, Alexandru Tănase, intends to make a visit to the penitentiary institutions in the country in order to assess their situation and come up with a set of measures for improving the detention conditions. This announcement was made during a meeting with employees of the Department for Penitentiary Institutions. He urged the directors of penitentiary institutions to be more open to communication with mass media for a more transparent and accurate reflection of the situation in these institutions. At the same meeting, the Minister of Justice declared that the penitentiary # 13 from Chisinau will be moved to the city outskirts.
- Members of the National Mechanism for Torture Prevention and of the Civil Society Advisory Council have been trained in the methods of monitoring the detention institutions with the view of preventing torture and other cruel, inhuman or degrading treatment¹⁴.

Shortcomings and problems:

- The lack of judicial independence, the excessive freedom of prosecutors, the insufficient number of professional independent lawyers, the threats posed by the police and the idleness of penitentiary authorities – all have led to a defective functioning of the protective mechanisms against torture in the Republic of Moldova. This is one of the findings of the Special UN Rapporteur for torture and other forms of cruel, inhuman or degrading treatment and/or punishment, Manfred Nowak, as a result of his visit to Moldova on July 4-11, 2009. The report was presented on September 16 at a roundtable¹⁵.
- The Helsinki Committee for Human Rights in Moldova argues that the Department of Penitentiary Institutions incites and encourages the torture of detainees. Ștefan Urîtu, HCHRM head, made this statement at a press conference, setting the example of two brothers - Pavel and Vitalie Levița, detained in Penitentiary # 1 in Taraclia on charges of several crimes and illegal gun possession. "Although the brothers have won the case at the ECHR, the penitentiary administration keeps denying the brothers' innocence and continues to abusively violate their rights by not allowing visits or meetings with the lawyer", Urîtu noted.

Rights of the child

Progress:

- Children without parental care will benefit of a special education. About 6.000 textbooks and guides, as well as 75 professionals are some of the benefits offered to the children without parental care, to the parents leaving the country and to the specialists working with the migrants' children from the Republic of Moldova and Romania. This joint initiative is aimed at promoting and fostering transborder approach to the phenomenon of "children left alone at home". The project „Transborder inter-institutional cooperation for the protection of children without parental care” was financed by the European Union and the Romanian Government in the framework of the Romania – Moldova Neighborhood Program 2004-2006.

Shortcomings and problems:

- „Many children in Moldova are deprived on their free time” – this is a finding of the children who monitored this summer the respect and violation of the child's right to play¹⁶.

Fulfilment of CoE recommendations / Execution of ECHR decisions

Progress:

- „The Moldovan Government intends to acknowledge all the complaints sent to the ECHR on the acts of violence by the law enforcement bodies in the aftermath of the April 7th events”, Minister of Justice, Alexandru Tănase, announced during a meeting with the plaintiffs.

Shortcomings and problems:

- On October 6, 2009 the European Court of Human Rights took a decision on the cases Deservire SRL v. Moldova, Petru Roșca v. Moldova and Godorozea v. Moldova. The total amount of damages to be paid to plaintiffs amounted to EUR 6,630. The Court has found a violation of the Deservire SRL right to a fair trial and property rights¹⁷.

14 Training „Monitoring and prevention visits to detention facilities”, was organized as part of the Torture prevention project on September 14-15, 2009.

15 The Roundtable „Examining of problems and measures taken for addressing cases of torture and other extreme abuses of human rights in the Republic of Moldova” was held on September 16, 2009. At the roundtable, the Deputy Prosecutor General, Vasile Pascari, admitted that „the April events are a proof that the torture phenomenon still persists in our society”.

16 Official Monitor of the Children's Rights # 8 (12), August 2009, [http://www.comunicate.md/upload/2296_Monitorul_Copii_8_\(12\)_August_2009.pdf](http://www.comunicate.md/upload/2296_Monitorul_Copii_8_(12)_August_2009.pdf)

17 EUR500 and EUR1,000 will be paid for moral damages and for costs and expenses. In the case Petru Roșca versus Moldova, the Court

- On September 14, 2009, the Great Chamber of the European Court of Human Rights from Strasbourg has rejected the petition of the Moldovan Government to re-examine the case Duca v. Moldova. Given this, the decision of the ECHR from March 3, 2009 in the case Duca v. Moldova is final and irrevocable and is to be fulfilled by the Moldovan Government¹⁸.
- On September 16, the ECHR has unanimously held there had been a violation of free speech within the public company „Teleradio-Moldova”. The decision was based on the case „Manole and others versus Moldova”. The Moldovan Government and the plaintiffs have three months to submit written remarks on this subject to the Court or, eventually, come to an agreement.
- The Council of Europe Commissioner for Human Rights, Thomas Hammarberg said that Moldova is one of the European countries where „judicial decisions are not fully honored”. Hammarberg considers this „a sign of giving up the principle of the rule of law and a serious impediment in protecting human rights”.
- “The Council of Europe is concerned that 36 out of 47 CE member states, including Moldova, do not fully comply with the ECHR decisions”, PACE Legal Affairs and Human Rights Rapporteur, Christos Pourourides, declared. The report reveals that 12 ECHR decisions have not been completely fulfilled by Moldova.

Cooperation with civil society

Progress:

- The program of Filat Government aims at boosting the co-operation with civil society. Premier Vlad Filat declared during a meeting with civil society representatives that the activity of the new Government will be transparent, with the civil society as partner in the policy elaboration process.

Shortcomings and problems:

- Despite the new government’s declarations about intensifying the co-operation with the civil society, the associative sector is still scarcely consulted in drawing up draft laws and decisions, while the policy elaboration process is conducted in a non-transparent manner¹⁹.

Freedom of media and access to information

Progress

- The governing program of the Alliance for European Integration foresees a greater openness of public institutions to the journalists, as well as mass media independence, including the public one.
- A new position of spokesperson has been open within the Government, as well as within several ministries, fact that allows easier obtaining firsthand information and comments.
- On October 13, the Audiovisual Coordinating Council has extended and issued new broadcast licenses to several TV and radio stations, including the radio station “Vocea Basarabiei”, which has been refused a license extension during the past few years.
- The Audiovisual Coordinating Council has also taken an attitude with regard to impartiality and objectivity in the news coverage by the public TV station “Moldova 1”.

Shortcomings and problems:

- Republic of Moldova dropped in the rating made by Freedom House report for 2009²⁰, made public in August in the area of mass media independence.
- The public TV Station “Moldova 1” refused to comply with the request sent by the parliamentary majority for live broadcast of the Parliament forming session.
- The public TV station “Moldova 1” was not able to broadcast live the plenary session of the Parliament, when the new Government was to be elected. The reasons stated by the Legislative on the impossibility to live broadcast at “Moldova 1” were formal.

established the violation of Article 3 of the ECHR – prohibition of torture and ECHR article #6 – the right to a fair trial. The Court has decided on a compensation worth EUR2,500 for moral damage and EUR1,000 for costs and expenses. In the case Godorozea versus Moldova, the plaintiff Maria Guduruzea invoked article #6 § 1 of the ECHR (the right to a fair trial), motivating that the Supreme Court of Justice made the verdict in her absence. The Court has unanimously determined the violation of article # 6 § 1 of the ECHR and a compensation of EUR1,000 for moral damage and EUR530 for costs and expenses.

18 On Eugenia Duca’s request, made in May, 2009, the Court decided to postpone the examination of the case on the compensation of moral and material damage, until the Supreme Court in Chisinau executes the ECHR decision of March 3, 2009, by canceling its illegal Decision of November 27, 2006. Eugenia Duca sent this request to spare the state budget of additional costs. At first, the plaintiffs claimed EUR150,000 and the value of a levied building, as well as EUR3,000 for moral damage and trial expenses. The Court encouraged the parties to come up to an amiable agreement within 3 months. Regrettably, the Government has not appreciated the gesture.

19 The laws and Government decisions are adopted under urgent procedures and without a public debate.

20 Nation in Transit Ratings and Averaged Scores, <http://www.freedomhouse.hu/images/nit2009/moldova.pdf>.

2. STRENGTHENING THE ADMINISTRATIVE CAPACITY

Administrative reform / Administrative efficiency

Progress:

The new Government's program contains provisions devoted to the Local Public Administration reform, decentralization and local autonomy, and a balanced local and regional development.

The Central Public Administration Reform:

- The Government's structure was reorganized, the number of ministries did not change, the number of central administration authorities was decreased (from 13 to 8)²¹;
- The Government's Apparatus is reshuffled into the State Chancellery²²;
- Activities to draw up the legislative framework continued and there have been launched consultations on the central public administration draft law;
- There are taken measures provided for in the institutional development plans for 2009-2011;
- The project of a new post classification system for public servants has been discussed with concerned parties; the draft regulation on the organization and functioning of disciplinary committees has been drawn up, as well as the assessment methods of public servants' professional performance;
- Public servants are trained with the support of the Multi-donor Fiduciary Fund within workshops, meetings, and roundtables.

Information technology (IT):

- A significant increase has been noted in the number of high speed Internet users; the number of Internet subscribers grew by 38%, compared with the first quarter of 2008, reaching 175,000 persons²³;
- An increase in sales volume of mobile phone operators is also being registered;
- New technical assistance projects in the area of communications have been launched²⁴.

Shortcomings and problems:

The parliamentary elections and the major political conflict have led to the postponement of several reforms and programs.

The Local Public Administration (LPA) and Central Public Administration (CPA) reform:

- The monitoring report on the CPA reform from January to September 2009 reveals a number of drawbacks and deficiencies²⁵: - the institutional development plan of competent central bodies have not reached the proposed goals, their priority within the planning documents system is not clear and there is a lack of financial backing; - the new staffing procedures in several public authorities are being deferred because of a delay in adopting the auxiliary normative framework; - the heads of departments within LPAs lack abilities of assessing public servants' performance; - public servants in the Human Resources offices within CPAs are not skillful in using information technology; - the Government has not approved yet a unit for the policy analysis, monitoring and assessment within the competent bodies of the public administration; - the Methodology for assessment of public servants' professional performance has not been approved yet; - the drawing up of the Automatized Information System „The Register of public functions and civil servants” is being postponed; there is not a single regulatory framework to govern the decisional process within the Government; - the procedures for working, approving, monitoring and assessing the policies are being regulated by various normative acts etc.;
- The pattern of public funds' allocation for low-priority areas is still in place: as per Government Decision # 449/22.07.2009; 468/07.08.2009; 530/02.09.2009; 555/10.09.2009;
- The abolition of the Ministry of Local Public Administration has led to the suspension of the branch offices' activity in the territory, fact that generated concern from some mayors' associations²⁶;
- Professional groups call for a reform of the LPA and its harmonization with European standards, within larger regions²⁷;
- The LPA authorities lack initiative and do not offer timely feedback on the impact of the policies promoted by central government²⁸.

Depoliticizing of public administration

Shortcomings and problems:

²¹ Law # 21-XVIII of 18.09.2009.

²² Government Decision # 574 of 28.09.2009.

²³ According to ANRCETI estimate.

²⁴ The EBRD project „Communications development and regulation” for National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI), amounting to EUR900, 000.

²⁵ To consult the item „Reports”, www.rapc.gov.md.

²⁶ Statements by the mayors from Bălți, Stăuceni village during the meeting from 16.09.2009.

²⁷ The Conference "Development of primary administrative institutions in Eastern Europe (XVIII-XX centuries)", organized by the Historians' Association.

²⁸ LPAs did not properly react to the introduction of the zero quota for undistributed income tax, fact that significantly reduced the incomes to the local budgets; no protests have been registered on the institution of visa regime for Romanian citizens, although this decision has mostly affected local communities, by depriving them of the possibility to take part in transborder projects and reducing their competitiveness; no protest reaction has been noticed when the Ministry of Finance decided to cut by 20% the expenses for all categories of local budgets, without changing the Budget Law etc.

- By the Law #41-XVIII of 20.10.2009 the deputy ministers have been transferred to the category of public statesmen – civil servants that can be appointed or dismissed according to political changes of the CPA leaders;
- The general mayor of Chisinau declared that during the period of 2007-2009, representatives of political factions within the Government have impeded the solution of many problems in the capital, by obstructing decisions, by cutting the municipal budget, and by perpetrating the deficit legacy²⁹;
- The practice of mayors' coercion and harassment continued³⁰;
- Civil servants affiliated to some parties are harassed and dismissed for disclosing public information³¹;
- Political parties continued blaming the Communist Government for deleterious influence and obstructing the activity of LPAs, run by opposition representatives³².

Stability of governing policy

Progress:

- Moldova has been rated higher in international studies: World Prosperity Index 2009³³; the report on the countries' attractiveness for international trade 2009³⁴.

Shortcomings and problems:

- According to data provided by the Ministry of Finance, the budgetary incomes decreased;
- The population incomes dropped: in the second quarter of 2009 the average monthly income in Moldova constituted MDL1.179, 6 which is 2,9% less than the same period of 2008³⁵;
- Banks suffer considerable loss because of the economic crisis³⁶;
- The stock market EVM-Composite index decreased³⁷;
- The political and economic situation significantly affected the tourist business³⁸;
- Republic of Moldova's resistance to the crisis reduced considerably³⁹.

Probity and transparency of governance /Anti-corruption fight

Progress:

- The new Government's program includes special sections devoted to strengthening civil society and co-operation with the public sector, the reinforcement of the public sector and of the national integrity system and fighting corruption;
- Some measures for improving the transparency of decision-making process have already been taken, draft laws in the field are being worked out;
- It is planned to revive the National Council for Participation;
- According to data provided by the Prosecutor's Office, during the first 9 months of 2009 there have been registered 607 offences by persons in official positions, 23 active corruption cases, 61 passive corruption cases, 88 cases of bribery, 139 instances of abuse of power, 140 - of excess of power, and 58 offences of negligence;
- Foreign assistance anti-corruption programs have been finalized, the implementation results having a positive impact⁴⁰;
- The CCECC has approved its activity plan for the second half of 2009⁴¹;
- The activity of tracking down and counter fighting corruption continued⁴²;
- Special surveys attest an increase in the corruption perception level within professional groups⁴³.

Shortcomings and problems:

- The efforts aimed at ensuring decisional transparency are not sufficient⁴⁴;
- There is a lack of available up-to-date information on convictions for corruption or related charges, the statistics in the field being defective;

29 The press conference from 13.08.2009.

30 The press conference of the mayor of Cimişeni village, Criuleni raion, who invokes persecutions from the Party of Communists.

31 The statement of the Liberal Party from 23.07.2009.

32 The announcements and press statements of the Liberal Party from 08.07.2009: Disruption of the local public administration by the Communist central power; The Communist government has purposely left villages without financing; The Liberal Party disapproves the Communist government that replaced the local autonomy with power centralization.

33 See <http://www.prosperity.com/country.aspx?id=MD>.

34 See The Global Enabling Trade Report 2009, <http://www.weforum.org/en/media/publications/CompetitivenessReports/index.htm>.

35 NBS data.

36 According to the representatives of the Consulting and Training Center within Moldova's Banks Association: total assets decreased by 4%, as of the beginning of August; the loans and deposits dropped by 10% in the first 7 months of the year; the banking system starts to self-consume. See Business Expert report from 07.09.2009.

37 Data provided by the Rating and Assessment Agency Estimator-VM J.S.C., www.evm.md.

38 Estimate of the the National Association of Tourism Agencies from Moldova (ANAT).

39 See the Rating of resistance to crisis effects, http://j-een.com/news_view/62/.

40 The implementation results of the Millennium Challenge Corporation Preliminary Country Plan; the implementation results of the MOLICO Program (CE and European Commission).

41 The decision of the CCECC college from 17.07.2009.

42 Information on the activity of the CCECC, MAI and Prosecutor's Office.

43 The report on the „Development of the corruption phenomenon perception in the Republic of Moldova 2005-2009”, realized by IMAS within MOLICO project, <http://www.ccecc.md/news/?nid=c6baed65f2ac50e6585c409b3e11603b>.

44 The findings of the monitoring report on the CPA reform in January-September 2009.

- Specialized surveys show that the corruption perception level is still high, the citizens considering this problem to be one of the most alarming⁴⁵;
- The implementation of anti-corruption efforts stipulated in the Moldova-EU Action plan has been realized with many deficiencies, independent studies confirm a number of drawbacks in preventing and fighting corruption⁴⁶: - some indices remained unchanged from the day the EU-Moldova Action Plan has been signed up till now; the progress has reached quotas registered 8 years ago; - the quality of the anti-corruption regulation framework is inadequate; - the statistics on corruption offences and lawsuits does not reveal a real efficiency in the area of fighting corruption, etc.

45 The report on the „Development of the corruption phenomenon perception in the Republic of Moldova 2005-2009”, produced by IMAS within the MOLICO project, <http://www.cceec.md/news/?nid=c6baed65f2ac50e6585c409b3e11603b>.

46 To consult the publications: „Efficiency of anti-corruption efforts and policies within the EU-RM Action Plan” (<http://www.e-democracy.md/publications/eficienta-politicilor-anticoruptie/>), the study “Government priorities 2009” (<http://www.e-democracy.md/publications/prioritati-guvernare-2009/>) etc.

3. TRANSNISTRIAN CONFLICT

The mediators' concern for resuming the negotiations in the „5+2” format

In the period examined, the process of forming a new Government in the Republic of Moldova has shadowed the efforts directed towards the Transnistrian settlement. However, representatives of the parties involved in the „5+2” talks have encouraged political parties within the Alliance for European Integration (AIE) that took over the leadership in the republic, to reach a „compromise with a view to creating a structure in charge of the Transnistrian case”. On September 15, 2009, the meeting in Moscow of the Russian Deputy Foreign Minister Grigore Karasin with the head of the OSCE mission to Moldova, Philippe Remler, referred to the working agenda of the mediators' and observers' meetings on the Transnistrian settlement.

The Alliance for European Integration would not keep the Ministry of Reintegration

The abolition of the Ministry of Reintegration by the new Moldovan authorities has raised neither discontent, nor approval from the Transnistrian administration. The head of the Transnistrian diplomacy, Vladimir Yastrebceak, noted that the abolition of the Ministry of Reintegration does not bear any meaning, since Transnistria has never collaborated with this institution. The contacts between the two parties took place only at the level of representatives of the Republic of Moldova and Transnistrian region. The Moldovan authorities delegated Deputy Prime-minister, Victor Osipov, to represent Chisinau in the relations with Transnistria within the negotiation process.

Tiraspol officials disapproved the intentions of the new Moldovan authorities

The head of Transnistrian diplomacy, Vladimir Yastrebceak, stated his position with regard to the intentions of the new Moldovan authorities to resume the talks on the withdrawal of Russian military presence in the Eastern districts of the Republic of Moldova and replacing the contingent with an international mission of civil observers. According to Yastrebceak, the new Government in Chisinau does not take into account the document signed by ex-President Vladimir Voronin on March 18, 2009 at Barvikha – act, according to which the Moldovan authorities would not seek the withdrawal of Russian military presence from Transnistrian region any longer. Yastrebceak also noted that the new Moldovan authorities do not suggest anything new and only revert to the position taken by the previous Government, insisting upon the withdrawal of Russian contingent from the region.

Russia does not have commitments to withdraw the military presence from Transnistrian region

Transnistrian authorities declared that the Russian Federation does not have any commitments to withdraw its military presence from Transnistrian region. According to the head of Transnistrian diplomacy, Vladimir Yastrebceak, the Russian Federation's commitments within the OSCE summit in Istanbul of November 1999 would have had been conditioned by a political settlement of the Transnistrian conflict. Once Russian Federation introduced the moratorium on the FACE agreement, this country's commitments have lost their force, especially, given the fact that Russia would have fulfilled its commitments anyway by withdrawing 14-th Army's heavy guns from the Transnistrian region. Thus, 50.000 units of guns, 800 of artillery, and 120 tanks have been withdrawn from Transnistrian region. What concerns the military personnel, 1.500 soldiers and officers out of the 2.500 in the task force of the former 14th Army left the Transnistrian territory and only 400 persons out of the 2.700 initially dislocated contingent remained.

The approach to the Transnistrian settlement could change by 2011 only

According to representatives of the Transnistrian authorities, the approach for settling the Transnistrian conflict could significantly change only by 2011, when the 10-year term of the basic Moldovan-Russian Treaty expires. The latter would either have to be extended or given up. Only then, would it be clear how the Moldovan-Russian relations develop and Transnistria's place within. The main issue, from the Transnistrian authorities' standpoint, would be to see if the new Government in Chisinau prefers complying with the Law on Transnistrian conflict settlement from July 22, 2005, meaning - assimilating the legacy of the Party of Communists, or will opt for a more realistic framework. The Transnistrian administration seems skeptical, were the Moldovan Government to give up the principles stipulated in the law from 2005, and will therefore focus on resuming the activity of the „working groups and will protect the interests of its citizens holding also Moldovan citizenship”.

Transnistrian authorities simulated an exercise to counter an enemy attack

In the second half of September, just before the appointment of the new Moldovan Government, Transnistria unfolded a military exercise, involving the mobilization of de-mining troops, transmission officers, gunners, anti-aircraft, and doctors. Thus, the general staff in Transnistria has undertaken to test the practicability of the military doctrine, by simulating „the military troops' dislocation for countering aggression, on the example of the military actions in Northern Caucasus in 2008”. The exercise focused on testing the readiness and training of the reserve troops „in a worse-case scenario” – a possible enemy's penetration „into the “heart” of the defense and the enemy's annihilation”, these being tested with „various guns, including the fire reagent system „Grad””.

4. JUSTICE

The capacity to impose respect for the rule of law/ Status and independence of judges and prosecutors / Transparency

Progress:

- The new Government's activity program provides the strengthening of the rule of law and judiciary reform, with such governing goals as: creating a judicial system, peculiar to a state with European aspirations; - tailoring a reform of the judicial system and prosecutor's office with a view of ensuring an independent, fair, equitable, functional and transparent justice; - to raise the professionalism level and integrity of judges, prosecutors and other legal representatives; - to ensure financial sustainability of the judiciary;
- The Superior Council of Magistrates (SCM) approved decisions on: the endorsement of Regulation on the functioning of the SCM official web site (Decision # 264/12 of 17.09.2009); implementation of the Integrated Court Case Management Program and lawsuits audio recording (Decision # 259/12 of 17.09.2009);
- A survey on the courts' functioning reveals that the confidence and satisfaction of beneficiaries of the judiciary is increased (SCM Decision # 271/12 of 17.09.2009);
- The courts have reinvested persons, earlier dismissed for political reasons⁴⁷;
- One notes an increased efficiency in managing case-loads and improvement of the court judgment enforcements⁴⁸.

Shortcomings and problems:

- A number of previously set goals have not been reached yet: - setting up the Superior Council of Prosecutors; - implementation of the information judicial system;
- The implementation of some measures in the new leadership's Activity Program could lead to system malfunctions and worsening of the situation in the judiciary⁴⁹;
- The number of judges not being increased, the case-loads and the decriminalization of the Criminal Procedure legislation have led to an increase in the number of cases under examination at the Supreme Court of Justice;
- A defective functioning is also registered in the process of aleatory distribution of files, active members of the SCM accuse the Department for Enforcement of Judicial Decisions and most of the SCM members of „legal norms' defiance" and „corporate protectionism"⁵⁰;
- The delay in cases' examination is often a result of the representatives' behavior during trials⁵¹;
- The regress procedure for the cases lost at the ECHR is followed only for minor cases, with no coercive or educational impact⁵²; regress actions are not taken against high ranking officials or political spokesmen;
- Representatives of international organizations rank Republic of Moldova among the countries, where court rulings are not fully implemented⁵³;
- Ex-high-ranking law enforcement representatives are accused of seizing businesses⁵⁴;
- The inability to ensure the judicial police still generates deficiencies in the courts' activity (The SCM Decision # 226/9 from 16.07.2009).

Training of specialists in the judiciary / Technical equipment

Progress:

- A number of seminars have been organized with support from the Preliminary Country Programme of the Millennium Challenge Account for Good Governance. These focused on training courts' technical staff responsible for web site maintenance; on strengthening the competence of law courts' chairs and counselors on performance assessment methods;
- By Decision # 223/9 of 16.07.2009 the SCM approved the Plan of the National Institute of Justice for Continuous Training of Judges in the second half of 2009.

Shortcomings and problems:

- The judges' selection and recruitment process from the NIJ failed because of the candidates' refusal to take part and the legislative ambiguities concerning disqualifying factors (SCM Decision # 222/9, 16.07.2009);
- The Ministry of Finance disposed to cut courts' financing, thus, basic needs being inadequately covered.

⁴⁷ The case of the head of the Ministry of Internal Affairs of Public Order, M.Cibotaru, groundlessly accused during the meeting of the Ministry of Interior on 19.05.2008 and dismissed by order of the Moldovan President.

⁴⁸ The activity results of the Department for Enforcement of Judicial Decisions during the first 9 months of 2009

⁴⁹ The plans to abolish economic lawcourts and the transition to a system of independent judges have not been sufficiently grounded and clear.

⁵⁰ Article „The Superior Council of Magistrates – guarantee of the judicial power independence or „umbrella" of several magistrates' irresponsibility?" signed by the SCJ President, http://www.csj.md/news.php?menu_id=180&lang=5.

⁵¹ See the SCJ statement of 07.07.2009, http://www.csj.md/news.php?menu_id=171&lang=5.

⁵² The Prosecutor General Office regress procedures with only one concluded with a court ruling (damages of about EURO1.000 to be paid by an ex-minister).

⁵³ Statements made by Thomas Hammarberg, CE Commissioner for Human Rights. Infotag, 03.09.2009.

⁵⁴ The press conference of Iovu family on the seizure of a concrete producing plant, Infotag, 16.09.2009.

5. ECONOMIC DEVELOPMENT AND REFORMS

Living standards of population

Progress:

- The sales' decrease in the real sector has led to a fall in the average monthly wages in July and August. This has been mostly noticeable in the processing industry and constructions. Incomes in agriculture have also decreased in August, compared with July, fact that shows a surprising evolution for this time of the year and is caused by a decline in the phyto-technical sector.
- Simultaneously, the negative trends on the labor market continued. Despite the seasonal increase of the employment rate in the 2nd quarter, this remains smaller compared with the previous year and the unemployment rate doubled. Thus, the number of job-hunters who left the country increased in the 2nd quarter, compared with the 1st quarter, as well as compared to the same period in 2008. Despite this phenomenon being a surprising development during crisis, the scarce employment opportunities in the country prompt the emigrants to accept lower incomes than before. This is also a seasonal development explained by a more tempered recession in constructions in some countries (including Spain and Portugal).
- The rise in the volume of transfers from abroad in July is due to a seasonal evolution and an increase of the number of emigrants. Nevertheless, both in July and in August these have had the lowest level compared with the same period last year (except for April).

Shortcomings and problems:

- The data of the National Bureau of Statistics on the average monthly salary do not take into account the arrears for wages' payments and the imposed leave of many employees. These are not reflected in the official statistics and have a strong negative impact on the standards of living of the people.
- As proof of the decrease in the remuneration fund serves the dynamics of the budget revenues that are not collected from income taxes. Thus, at the end of August, contributions to the state social insurance budget were 7% lower than expected and the ones for compulsory medical insurance - 12,5% lower, while income tax payments dropped by 23,5%.
- The promised rise of public servants' wages becomes impossible in the context of a continuous crisis. Though the new government has initially pledged to ensure a 24% enhancement of wages for the teaching staff, this becomes uncertain after the round of negotiations with the IMF, as the latter insists on a reduction of budgetary spending.

Strengthening economic growth

Progress:

- The economic recession in the 2nd quarter deepened as compared to the 1st one and reached 8,6% in annual terms as a consequence of the continuing decrease of household consumption (-10,5%) and gross formation of fixed assets (-58%).
- Though the industrial sector registered a slight improvement in the 3-rd quarter, this was mainly due to the mining industry and energy, heating, gas and water supply sectors. At the same time, the production volume in the processing industry continued to shrink at a pace, similar to the previous quarter. The decline in the food industry and beverages has even got deeper compared with the 2-nd quarter.
- The situation of retail sales in the 3-rd quarter is not too optimistic either. Sales dropped in July and August by 6% and 5.6% respectively, compared with the same period last year, the recession deepening more than in the previous quarter. However, the volume of services provided to the population resumed its positive trend, stimulated by a slight increase of remittances from abroad.

Shortcomings and problems:

- The political instability in the 2-nd and 3-rd quarters has strongly influenced the investments' activity. The biggest decrease has been registered in the area of foreign investments – their inflow dropped about 14 times in the 2-nd quarter of 2009, compared with the same period of 2008. The investments' shortage in technological equipment and transportation means shows an alarming tendency that makes the process of overcoming the crisis even slower.
- The wine-growing sector is still in a critical condition and the companies' expectations from the new government seem exaggerated in the conditions of a crisis and such legacy from the previous administration. The newly appointed government pursues the improvement of business climate by removing to a maximal extent all existent barriers and not by fueling (inexistent) recourses into the branch.

Macroeconomic and financial stability

Progress:

- As a result of the decrease of inflationist pressures in the 3-rd quarter the National Bank of Moldova has reduced the basic rate for the main operations of short-term monetary policy from 9% to 5%. Also, the rate of compulsory reserves for commercial banks in national and foreign currency has been reduced from 16% to 8%.
- The NBM continued releasing direct loans to commercial banks in order to stimulate the crediting of the real sector of the economy. Though the interest rate for loans diminished in August, their volume decreased, proving a limited capacity of the real sector to assimilate the loans provided.

- The official exchange rate of the national currency has been stable during the 3-rd quarter, but at the end of September it depreciated over 10 days by 2.83% for USD and 33% for EURO.
- The deflation that lasted a long period has changed its trend in September as a result of the decline in agricultural production and seasonal rise in prices for agricultural products, the enhancement of production costs over several months and prices' increase in most European countries (Moldova's commercial partners).

Shortcomings and problems:

- Despite the relaxation of the NBM monetary policy, the impact on crediting the real sector by the commercial banks has not been balanced. Although the average nominal interest rate decreased in July-August by 1.4 percentage points (p.p.) for loans in national currency and by 0.4 p.p. - in foreign currency, the actual interest rate remained at the same level as of the beginning of the year and still constitutes a significant impediment for economic agents.
- The share of non-performing loans in the total Normative Capital of the banking system has reached 43.9% in August (compared with 21.9% last year). The ratio of expired loans and of the ones with non-cumulative interest worsened as well, from 23% to 58.7%. And the continuous recession in the winemaking and constructions sectors – having a big weight in the bank loans' portfolio – does not give any hopes for these indices to improve either.
- The strong leu depreciation at the end of September has not been only a seasonal development or one caused by the remittances' reduction. Financing of the high budgetary deficit by non-inflatory methods leads to investors' negative expectations with regard to the national currency evolution. This is the reason no one doubts that the speculative actions have artificially increased the demand for EURO during this period.

Fiscal transparency and stability

Progress:

- The national public budget deficit continued its increase at the end of August and reached MDL2, 57 billion. The planned national public budget has been carried out in terms of revenues at a rate of 86.8% and in terms of expenses – at 80.6%.
- After a period of constant growth of the arrears, in September the state debts to economic agents for VAT reimbursement dropped twofold and the ones for excises by 13%.

Shortcomings and problems:

- The budget revenues under the expected level and the failure to cover the expenses have led the previous government to take measures that damaged even more the situation of economic agents. Thus, the penalties and administrative sanctions applied above the ceiling level (by 52.4%) points to the pressures exerted by several state institutions on economic agents. The increase of debts of the public entities to services' providers and the ones for VAT reimbursement – aside from the negative impact on the companies – have contributed to reporting erroneous data regarding the budget deficit during this period.
- The issuance of state securities for covering the budget deficit (which increased in August compared with July) could have a negative impact on crediting the real sector of the economy and poses threat to the budgetary sustainability as well, because of their quick expiration.
- The government forecasts regarding the evolution of the budget deficit are very pessimistic. If the first quarter has been finalized with a deficit amounting to 7.5% of the GDP, then, it is expected that by the end of the year it could make up 14% of the GDP (about MDL8.5 billion).

6. SOCIAL DEVELOPMENT AND REFORMS

Gender equality

Progress:

- During the examined period no significant developments have been registered in this field.

Shortcomings and problems:

- The approval of the draft national policy on gender equality, as well as of the medium and long-term action plans relevant to its implementation continues being postponed. The election period constituted an important factor in delaying the entire process.

Social protection and integration

Progress:

- On September 2, 2009 the Decision # 5 of the Moldovan Parliament regarding the adoption of the Statement concerning the social-economic situation in the Republic of Moldova and necessary actions to cushion the effects of the crisis has come into force. The declaration reveals the devastating effects of the crisis on life and social security in the Republic of Moldova, particularly referring to the decrease in remittances, employees' dismissal, the government's inability to meet the previously made promises regarding the wages' increase etc. A rather serious aspect concerns the sudden decline of contributions to the national budget of the social insurance system. The ratification of this statement by the Parliament constitutes a public acknowledgment of the fact that Moldova has followed the regional trends of economic recession and this would most certainly negatively impact the national system of social security.
- On September 9, 2009 there came into force the Government's decision approving the Concept of the Information Automated System „The State Register of family violence cases”. The government has also approved the action plan for drawing up and implementing this system. An important aspect of this decision regards an expected tight cooperation between various ministries with competencies in the area of family violence in terms of collecting, processing and disseminating the information. A core role will be attributed to the Ministry of Labor, Social Protection and Family that will own and keep the Register, and will serve as registrar and supplier, by means of its specialized departments.
- On September 10, 2009 the Government approved the Decision # 567 on the Regulation for the creation and operation of the Community Early Development Center for Children aged 3-(6) 7. This regulation, given an allocation at local level of the necessary resources, aims at increasing the number of children aged 3-(6) 7 involved in pre-school programs, as per National Development Strategy (2008-2011). The district and municipal educational departments are to undertake actions for encouraging and sustaining local initiatives of creating such centers. These could very well contribute to strengthening the efforts of preventing the children's institutionalization and ensuring their access to formal and non-formal educational services. At the same time, the centers of this kind could generate a favorable environment for a harmonious development of the children aged 3-(6) 7, including the ones with special educational needs, particularly - from socially disadvantaged families.

Shortcomings and problems:

- The opening and integration of the Community Early Development Centers for children aged 3-(6) 7 becomes difficult, given short budgets of the local public administrations that impede the financial sustainability of projects implemented in cooperation with NGOs.

Public health care

Progress:

- On September 10, 2009 there came into force the Government Decision # 568 regarding the procurement of drugs and other medicinal products for the healthcare system. This decision provides for the approval of the Regulation that should make public procurements transparent, and, given a rather poor state of the public budget, dispose for setting-up a clear and transparent mechanism of efficient and optimal use of financial means in the national healthcare system.
- By the Government Decision # 506 of August 17, 2009 there was approved the Agreement regarding the cooperation and fight against the traffic of counterfeit drugs, signed in Chisinau on November 14, 2008 within the CIS. This agreement's conclusion and the implementation of its clauses would contribute to reducing the occurrence of counterfeit drugs' sale and consequently to decreasing the number of cases of drugs' poisoning, by means of a common effort of the competent bodies from the signatory countries.

Shortcomings and problems:

- During the reference period no significant deficiencies have been registered in the field.

7. INTERNATIONAL TRADE

Commercial relations (Trade regime with the EU)

Progress:

- The European Union continues to reinforce its position as main target market for Moldovan exports, reaching 53,6% in overall exports during the first nine months of 2009;
- According to the data provided by the Ministry of Economy and Commerce, the Moldovan wine producers have used the quota of 700,000 deciliters offered by the EU. At the same time, quotas for sugar have been used at a rate of 88.7%, for corn – 98.5%, for barley – 50.6%. The quotas for wheat and wine have been used completely;
- The negotiations regarding a possible free trade agreement between the European Union and the Republic of Moldova could start in autumn, in the best case. Moldovan authorities must direct all efforts towards setting the priorities and taking a stand with regard to the future agreement.

Shortcomings and problems:

- The existence of inner barriers remains a major impediment for the development of trade relations with the European Union. These deficiencies do not only concern the failure to meet the requirements on the standards for food security. The latest report “Doing Business” reveals that the Republic of Moldova cannot reach positive changes within the business framework for foreign trade. Thus, in „Trading across Borders” Moldova still ranks 140-th, without registering a noticeable progress in terms of financial costs and procedures necessary for import-export operations.

Export promotion and development

Progress:

- The decrease in trade flows continued in August 2009: exports dropped by 12% compared to July, while imports - by 11.7% (a fact typical for the previous years as well). During the first nine months of 2009 the exports registered a decline of 24.2%, while imports – of 38.3% compared to the same period last year. A more pronounced imports’ decrease has led to the compression of the trade deficit in these 9 months by 44.9% compared to 2008;
- Simultaneously, the reduction of commercial flows has not been even from a geographic viewpoint. The exports to the CIS decreased more than the ones to the EU (27.6% vs. 22,4%), and imports from the EU decreased more than the ones from CIS (44% vs. 34.9%);
- Another development worth mentioning is Romania’s displacement by the Russian Federation in the ranking of export target countries. As against an annual comparison, in January-August exports to Romania dropped by 30.3%. Among the top 10 target markets for Moldovan exports a much more significant decrease has been registered for Ukraine (-48.4%) and Poland (-48.9%). Nevertheless, this was not the first case when Russia outran Romania, this situation being also noted in the 4-th quarter of 2008 and 2-nd quarter of 2009. Therefore, it is obvious that at least in the 4-th quarter of 2008 the political tensions have not constituted a factor to seriously influence the trade relations between the Republic of Moldova and Romania;
- Apparently, economic motives rather than political ones explain this overtaking. Certainly, the decision of instituting the visa regime for Romanian citizens has led to some unfavorable circumstances for the bilateral economic relations. Still, exports to Romania have mostly suffered because of their structure, where a considerable share was attributed to textiles, shoes and metals. Their exports significantly dropped in January – August 2009: by -23.5%, -47.7%, and -79.5%, respectively. On the other hand, exports to the Russian Federation are mainly constituted of agricultural food products that either coped quite well with the demand compression caused by the global economic crisis, or have generally registered a significant increase (for example, during this period vegetable products increased by 57%).

Shortcomings and problems:

- The reviving of trade flows will further depend to a big extent on reinforcement of the economic recovery tendency on global level, which is crucial for stimulating foreign demand for Moldovan exports, as well as on fueling the inner demand by means of remittances from Moldovan migrants, benefiting from the economic re-launch in the host countries. Another important course could be the removing of internal barriers in the way of foreign trade. In this context, a very favorable step has been taken by the Ministry of Agriculture and Food Industry by its decision to cancel the restrictions for the export of grapes and wine in bulk. But this is only the first step for stimulating the competitiveness of Moldovan companies abroad. Entrepreneurs will also wait for other similar measures from the new Government.

Sanitary and phytosanitary standards

Progress:

- No significant progress has been noted in the 3-rd quarter, this was influenced by the political instability in the country. Nevertheless, one can mention the adoption of two sanitary-veterinary standards: on the protection of poultry for meat production and on animal health and sanitary-veterinary certification for bee and bumblebee imports.

Shortcomings and problems:

- Both the implementation of the Automated Informational Animal Identification and Marking System, and the endowment of relevant laboratories registered a slow progress; the two are critical for the qualification of Moldovan exports of animal origin products on the EU market.

8. BUSINESS CLIMATE

Progress:

- On September 9, 2009 the World Bank issued its new report „Doing Business 2010”, according to which, as compared to 2008, the Republic of Moldova has advanced 14 positions in the ranking of 183 states. The respective progress was mainly due to the results of the regulatory reform „Guillotine II”, as well as to other actions, including the reform of the State Cadastral Office, which shows a positive trend within the framework regulating the entrepreneurial activity in the country. A major progress has been registered in terms of property registration, the Republic of Moldova advancing from the 51st to the 17th position, mainly thanks to the alleviation of red tape procedures (from 48 to 5 days). Moldova has also advanced 24 positions in the ranking of „taxes’ payment”, as a result of the decrease in fiscal pressure and fiscal administration procedures. Another positive trend concerned the decrease of red tape procedures and costs for starting a new business from 15 to 10 days. Simultaneously, the Republic of Moldova has registered regress in terms of procedures for obtaining construction licenses, contracts’ execution and investors’ protection.
- On September 17, 2009 a decree regarding the adjournment of the Government Decision # 269 of April 8, 2009 has been adopted. It concerned the introduction of the visa regime for Romanian citizens⁵⁵. After the nomination of the candidate for the Prime Minister position, this is the second decree issued by the president ad interim, fact that confirms the commitment of the new government to improve the diplomatic relations with Romania. Such a measure has certainly favorable effects on the business climate and constitutes a good sign for Romanian investors.

Shortcomings and problems:

- The investment climate has been further strongly influenced by the world economic and financial crisis, overlapped with the political crisis in the country. Thus, the inflow of direct foreign investments into the national economy continued to reach minimal historic levels and the phenomenon of disinvestment (the reflux of foreign investments out of the country) becomes more and more obvious. This refers to the decrease in the balance of social capital of foreign capital enterprises. Though data for the 3rd quarter have not been made public yet, it is most likely that these tendencies continued. According to the available information, at the end of the 2nd quarter of 2009 the flow of direct foreign investments into the national economy reached USD 13.27 million, dropping by 37.8% compared with the 1st quarter and about 14 times compared with the same period last year.
- The disinvestment phenomenon has been reflected by the data on the investment ranking of the Republic of Moldova, where, at the end of the 2-nd quarter 2009 the balance account of the enterprises’ social capital registered a decrease of USD 10.42 million. Moreover, during the same period, taking into consideration the inflow of direct foreign investments in the form of social capital, amounting to USD 42.43 million, one can conclude that the real value of the social capital withdrawn from the companies with foreign capital constituted USD 52.85 million⁵⁶. This phenomenon, aside from the effects of the economic crisis, was caused by a low confidence of the business climate in the economic, social and mainly political prospects of a country with a growing budget deficit, uncertain relations with the IMF, and a defective functioning of the legislative and executive branches.
- Simultaneously, there has been registered a net reflux of direct foreign investments out of the country in the form of reimbursements, as part of the commitments to foreign investors, valued at USD 49, 83 million.
- Major concerns regarding the dynamics of direct foreign investments are raised by a significant increase of losses of non-residents. By the end of the 2nd quarter their volume constituted USD 15.53 million, increasing by 67.3% compared with the 1st quarter. Concomitantly, in the 2-nd quarter there has been registered the first case, when a foreign capital commercial bank⁵⁷ registered losses worth USD 4.76 million.
- The biggest losses (-USD 11.59 million) have been registered by companies with social capital coming from the Russian Federation. Surprisingly, during the same period the companies with Romanian capital made profits worth USD 5.76 million and the volume of subscriptions to their social capital was of USD 1.88 million⁵⁸. Such a development contradicts the expectations related to the introduction by the Republic of Moldova on April 8 of the visa regime for Romanian citizens, fact that apparently had more image costs than economic ones. Still, the effects of the respective measure could be different from the ones reflected in the official statistics, taking into account the fact that a major part of foreign investments considered to come from Romania are operated by non-Romanian companies that only came to Moldova through Romania. Examples of such companies are: Orange Moldova, Mobiasbanca Groupe Societe Generale, Reiffeisen Leasing etc.
- The measures taken by the previous government in order to attemper the increase of the budget deficit continue to significantly damage the business climate in the Republic of Moldova. Thus, there have been increased the pressures exerted on some economic agents by the control public authorities (especially by the police and fiscal bodies) and, consequently, the number of applied penalties increased. At the same time, the accumulation of debts for VAT reimburses and excises is another negative sign for investors. Such a policy of financing the budget deficit carried out by the state with respect to the economic agents seriously damages the local business climate.

⁵⁵ No. 2-V. Chisinau, September 17, 2009

⁵⁶ The Balance of payments of the Republic of Moldova, NBM.

⁵⁷ A company with foreign capital is considered the entity with at least 10% of the subscribed social capital or of total votes belonging to a non-resident.

⁵⁸ The Balance of payments of the Republic of Moldova, NBM.

This report is published as part of the project "*EU – Moldova Relations – Monitoring of Progress Within the Framework of the Eastern Partnership*". The project is being implemented by two non-governmental organisations: ADEPT and EXPERT-GRUP, and is funded by Soros Foundation-Moldova.

The concept of this project was born in a dynamic political context, which was determined by political, economic, and social factors, as well as the launching of the Eastern Partnership, a new initiative of the European Union within the European Neighbourhood Policy. Formally launched in May 2009, the Eastern Partnership comes to support the existing dialogue between Republic of Moldova and European Union by opening new cooperation dimensions and opportunities to bring Moldova closer to EU, inclusively by signing a new EU-Moldova legal agreement, wider than the current Partnership and Cooperation Agreement. In this context, implementation of reforms initiated accordingly to the EU-Moldova Action Plan is a premise to intensify the EU-Moldova dialogue and bringing Moldova closer to the EU.

At the same time, the democratic transformation process is a complex task. Government, Ministry of Foreign Affairs and European Integration, National Commission for European Integration and other central public authorities play a key role in implementing these reforms and priorities. However, civil society also plays an important role both in promoting reforms in society and monitoring the implementation process.

Under these circumstances, the project is designed to strengthen the framework of public debates on European integration policy of Moldova, built within previous similar projects implemented by ADEPT and EXPERT-GRUP, and help improving associated governmental policies. The project bears three objectives:

Objective 1: Monitoring evolutions in the EU-Moldova relations and conducting relevant analyses.

Objective 2: Enhancing awareness and improving knowledge about major political developments in the Moldova-EU dialogue.

Objective 3: Providing information assistance and advisory upon request to the Ministry of Foreign Affairs and European Integration during the negotiation of a new agreement between Moldova and European Union.

The Association for Participatory Democracy ADEPT is a non-government, not-for-profit, independent, and non-partisan organisation, which is acting in the Republic of Moldova. ADEPT was registered in January 2000 and gained status of an organisation working for public benefit. ADEPT is an analytical and practical centre that offers expertise in electoral and democratic processes in Moldova. The mission of ADEPT is to promote and to support citizen participation in all aspects of public life.

EXPERT-GRUP is an independent think tank that acts in the Republic of Moldova. Being a non-government organisation, EXPERT-GRUP is not affiliated politically to any party and it decides independently on its institutional strategy. The mission of EXPERT-GRUP is to contribute to the economic and democratic development of Moldova and to consolidation of Moldova's international competitiveness. The organisation uses analyses and research at international quality standards as its practical instruments to achieve these goals. Economic policy, European integration, private and public management are the areas where EXPERT-GRUP expertise is applied.