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**Implementation of reforms initiated accordingly to the EU-Moldova Plan,  
Assessment of progress in September 2009 - June 2010**

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**Authors:** Igor BOȚAN  
Corneliu GURIN  
Elena PROHNIȚCHI  
Valeriu PROHNIȚCHI  
Alexandru OPRUNENCO  
Ana POPA  
Adrian LUPUȘOR  
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**

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

### ***Political dialogue and democratic institutions***

The pro-European message of the new governance supported by Moldova's democratic offensive in the EU member states re-launched and sped up the political dialogue with the European Union. After the political dialogue restarted in January 2010, the new Association Agreement is being negotiated at a rapid pace. The adoption of the strategic document "Rethink Moldova" that sets down the development priorities of the Republic of Moldova for 2011-2013 reconfirmed the European option of RM in front of the EU and the commitment of authorities to implement the necessary political and economic reforms. As for democratic institutions, progress was made in improving the electoral and political party legal framework in compliance with the Council of Europe's recommendations, while in the human rights field the CoE ceased monitoring Moldova in terms of religious freedom. The situation of the media is improving, as a legal framework guaranteeing the freedom of expression was enforced and new media broadcasters have emerged. Despite the MI and MJ efforts, the situation regarding the use of torture in preventive detention facilities and prisons, as well as the detention conditions did not improve. Actions aimed to improve the legal framework for the protection of child rights taken in the period concerned lacked financial assistance and, therefore, were inefficient.

### ***Consolidation of administrative capacity***

Certain actions were taken in the CPA reform area; the situation is improving but slower than needed to prove appropriate capacities. Like before, the attitude towards LPA reform does not match up with the importance of this area; actions aimed to strengthen the legislative-normative framework with the view to ensure local autonomy have just started and are still in the analysis phase. Some progress is observed in terms of decision-making transparency and public consultations, but there is a serious reticence in both areas. The anti-corruption fight still raises concerns, while effects of anti-corruption actions do not prove a real political willingness in the field.

### ***Transnistrian conflict***

The change in governance in Moldova brought a new potential for unprecedented approaches. The process of stabilisation and recovery of Moldovan economy was sustained by an intensive external activity to insert the Transnistrian file into the process of resetting the Russia-U.S. relations, as well as the Russia-EU ties, this becoming the key chance to settle the Transnistrian conflict. Guarantors of the Transnistrian settlement process signed three statements: concerning European security; concerning security in the Black Sea area; and concerning the Transnistrian settlement, treating the last issue accordingly to the "Matryoshka" principle, in the regional (Black Sea area) and European area. After the common Russian-Ukrainian declaration within the Marburg meeting between German Chancellor Angela Merkel and Russian President Dmitri Medvedev, it was announced that the Transnistrian issue could be included into the agenda of the Russia-EU Committee for Foreign and Security Policy at level of foreign ministers.

### ***Justice***

Situation in the area of rule of law captures the permanent attention of national authorities, civil society, the media, international partners and community organisations. Progress in this system is being observed in almost all areas, but their impact is quite unimportant for society. Despite their priority on internal and external agenda, reforms in the rule of law do not develop appropriately and regularly, there are inadequate interferences. Assessments of taken actions reveal ad-hoc, unprofessional approaches, which are not considered and prepared beforehand. There is a certain confrontation between political and legal authorities, and no mediation between powers is achieved, as the chief of state is part of key representatives of political power, while the Constitutional Court is involved into conflict itself. In these conditions, a 'cooperation pact' is required, an apolitical organ is recommended to coordinate and consider the implementation of justice reform in a professional manner.

### ***Economic reforms and development***

Since its investiture, the Government had a difficult task to fulfil – to urgently modify the budgetary laws for 2009 in order to prevent a huge budgetary deficit, to draft new budgetary laws for 2010 in austerity conditions, resume relations with IMF and other donors, implement a series of measures aimed at the relaunch of economy and recovery of budgetary revenues. It succeeded many of these measures in a short enough term, first of all working out the economic stabilisation and recovery programme of RM for 2009-2011 and negotiating the Agreement with IMF – a complicated task given the need of finding additional resources to cover the budgetary deficit, as well as political restrictions imposed by such an agreement. The next important step was to work out the 'Rethink Moldova' document tabled to community of donors, which brings together the short-term development priorities and thanks to which Moldova was promised a financial aid worth USD 2.6-billion. Beyond macroeconomic importance, the gesture of donors had also an important symbolical charge, being an opening of donors towards Moldova and their confidence in the new government's vision of the country's development. However, Moldova is facing so far a series of short and medium-term problems: high inflation rate, a large number of non-performing credits in banking system, budgetary restrictions, financial vulnerability of pension system, with all of them making the economic development difficult.

## ***Social reforms and development***

'Rethink Moldova' sets up a number of priorities in the social area, too, inclusively for healthcare, education, social protection and integration. Reforms in healthcare area, especially aimed to strengthen the primary healthcare system and development of mandatory health insurance system made the conditions needed to facilitate the relevant Millennium Development Goals for this area. Year 2010 was declared the European Year against Poverty and Social Exclusion. EU member states as well as partners including Moldova are encouraged to take necessary actions to promote a society which would support and improve living standards, welfare and equal opportunities for all. Seventeen 17 percent of EU population cannot afford elementary goods and services now. This indicator is much higher in Moldova and even increased under the influence of economic crisis. Reforms and progress made in Moldova were strongly undermined by deep economic crisis, as well as instable political situation. Positive evolution was observed in the area of social reforms in September 2009 – May 2010. On the other hand, there are serious problems so far, which have origins in particular, in limited available financial resources for actions needed to redress unemployment, social protection, healthcare, and other areas covered by this chapter.

## ***Foreign trade***

The foreign trade achieves rather political trends. Exports increased slightly thanks to a modest recovery of demand on some foreign markets. Exports showed a positive trend starting November 2009, both in annual and monthly turnout. However, these recovery signs should be treated with caution, as comparisons are based on a relatively low turnover in late 2008, when the crisis was on its peak. Positive trends are very clear in terms of policies. Negotiations on the Deep and Comprehensive Free Trade Agreement between the EU and RM are expected to start in 2010. The new Government focuses and aims to remove some serious restrictions and barriers to export promotion. Unfortunately, no progress is observed regarding the adoption of sanitary standards required in order to make use of all autonomous trade preferences granted by the EU in March 2008.

## ***Business climate***

Investiture of the new Government and adoption of the economic stabilisation and recovery programme of the Republic of Moldova for 2009-2011 gave a positive signal to business community. Both the temporary stabilisation of political situation in the country and the intentions of authorities to remove some administrative restrictions to entrepreneurship create conditions to develop entrepreneurial activity. However, by late 2009 investment inflows recorded the lowest level ever seen, and credit portfolios of commercial banks kept falling down because of financial difficulties faced by companies. Some measures showed the cooperative attitude of executive towards business environment, and these actions should be varied out at a more rapid pace to accomplish the planned objectives. On the other hand, there are chronic problems that the new Government was unable to settle – anti-competitive arrangements on diverse markets, over-presence of control organs in daily business activity, populist actions without a real impact on business climate.

### *Political dialogue: overview*

The investiture of Filat Government opened a new round of the political dialogue between RM and the EU. The clear articulation of a pro-European message by the new governance on the one hand and the EU opening towards RM after the July 29, 2010 elections on the other hand restarted and intensified the EU - Moldova political dialogue with the view of strengthening the bilateral relations by negotiating a new bilateral agreement to replace the former CPA. The opening of a diplomatic offensive by RM in western countries supported by internal coherent actions aimed to implement political and economic reforms opened in January 2010 the talks on the new Association Agreement which move forward at a rapid pace..

Following are the key events which marked the EU - Moldova political dialogue in September 2009 – June 2010:

- Working visits by EU Troika (October 2009), Commissioner for Commerce, Cooperation Office of European Commissioner for Foreign Relations and European Neighbourhood Policy Benita Ferrero-Waldner (November 2010) and new Commissioner Štefan Füle (May 2010), European Commissioner for Agriculture and Rural Development (June 2010);
- The introduction of the “Moldova Democracy Package” by CoE in cooperation with the European Commission<sup>1</sup>;
- Consultations between European Commission and Moldovan Government regarding future Association Agreement (October, December 2009);
- The meeting between EU - Moldova Cooperation Council (21 December) which signed a joint political declaration confirming indirectly the commitments of the parties to strengthen bilateral relations, as well as an understanding memorandum concerning the granting of EU advising assistance to the Moldovan Government;
- Moldova’s accession to the European Energy Community initially de jure (18 December) and de facto in May 2010 by getting the full member status after adoption of new laws on electricity and natural gas, in accordance with the EU norms;
- The opening of EU - Moldova negotiations regarding the RM-EU Association Agreement within four working groups: 1. Political Dialogue and Reforms, Cooperation in the area of Foreign and Security Policy; 2. Economic, Sector and Financial Cooperation; 3. Rule of Law, Freedom and Security; 4. People-to-people Contacts; Development of three rounds of negotiations (January, March, June 2010)<sup>2</sup>;
- The opening of the human rights dialogue<sup>3</sup> and conduct of the first round of talks (March 2010). The dialogue aims to tackle the human rights in-depth with the purpose to achieve concrete results and intensify the dialogue on human rights within multilateral forums;
- The start of activity of the EU High Level Policy Advice Mission to Moldova to advise the Moldovan Government (April 2010);
- The meeting of the Consultative Group: Partnership for Moldova Forum,<sup>4</sup> during which the Moldovan Government and development partners signed the Partnership Principles for Development<sup>5</sup> and the Moldovan Government introduced to development partners the strategic document “Rethink Moldova”, which sets the development priorities of Moldova for 2011-2013<sup>6</sup>;
- Meetings of the Mobility Partnership (November 2009, May 2010) which assessed the results of partnership, set the direction of next steps and adopted a new table on monitoring of the projects implemented within the partnership;
- The meeting of the EU - Moldova Cooperation Council (June 15, 2010), which formally opened the visa liberalisation dialogue between RM and EU;
- The accession of five new members – Belgium, Finland, Greece, Netherlands and Switzerland to the Common Visa Application Centre (CCV).<sup>7</sup>

<sup>1</sup> The Moldovan legal system in the area of human rights as well as its deficiencies in implementing the human rights will be evaluated within this package, and actions will be taken to protect human rights: rights of persons in custody, strengthening of authority of ombudsmen, improvement of situation of mass media.

<sup>2</sup> After three rounds of negotiations, talks on people-to-people contacts are over, majority of articles on cooperation in the area of foreign and common security policy, rule of law, freedom and security were temporarily closed, and negotiations on political dialogue and reform, economic, sector and financial cooperation are underway.

<sup>3</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/educ/112892.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/educ/112892.pdf). Sittings within the dialogue will take place at least once a year, with the mandatory participation of civil society representatives and delegates from international and regional organisations (UN, OSCE, and Council of Europe).

<sup>4</sup> Meeting organised by European Commission and World Bank on March 24, 2010, which brought together 32 bilateral institutions and 20 multilateral development institutions. Donors pledged after the meeting to allocate financial assistance worth 1.936 billion Euros to the Republic of Moldova, mainly under the shape of unredeemable loans and grants.

<sup>5</sup> [http://siteresources.worldbank.org/INTMOLDOVA/Resources/Moldova\\_Partnership\\_Principles.pdf](http://siteresources.worldbank.org/INTMOLDOVA/Resources/Moldova_Partnership_Principles.pdf). The purpose of this document is to enhance efficiency of external assistance provided to Moldova to improve living standards, reduce poverty, implement Millennium Development Goals, and Government objectives of association and economic integration into EU;

<sup>6</sup> [www.gov.md](http://www.gov.md). The document comes to supplement the Government’s Action Programme and National Development Strategy for 2008-2011. Development priorities of this document focus on responsible governance, economic recovery and human capital.

<sup>7</sup> [www.cac.md](http://www.cac.md).

## Democratic Institutions

### Electoral process

#### Progress:

- Amendments to the Electoral Code in accordance with recommendations by the Venice Commission are part of major progresses.<sup>8</sup> After holders of dual citizenship were restricted in Q3 2009 from running for Parliament<sup>9</sup> and electoral blocs were prohibited<sup>10</sup>, the Electoral Code underwent major changes<sup>11</sup> in June 2010. Key changes envisage additional possibilities for voting abroad, reduce possibilities of multiple vote, limit possibilities to dismiss members of electoral bodies, regulate activity of the printed and electronic media, reduce restrictions for the right to vote of detainees, limit ways to turn down the registration of observers etc.<sup>12</sup> Although the modifications improved much the Electoral Code, by reducing inadvertencies and/or faults, and the Venice Commission welcomed them, the completed Electoral Code contains so far some faulty legal regulations<sup>13</sup>;
- Creation of electronic register of voters and its repeat testing<sup>14</sup>. The introduction of electronic register of voters planned for 2011 will settle the problem of quality of voter rolls.

#### Shortcomings and problems:

- Inappropriate training of electoral functionaries and their negligent attitude towards good organisation of electoral process, arbitrary interpretation of Electoral Code, quality of voter rolls – all of them are some of shortcomings faced during organisation and conduct of electoral process, signalled by national observers during new local elections on November 15, 2009, 16 and May 30, 2010<sup>15</sup>;
- Voters from the Transnistrian region cannot exercise their right to vote so far;

## Human Rights

#### Progress:

- The execution system is being reformed, as private legal executors were introduced<sup>16</sup>. The reform aims to decongest the Execution Department and execution offices within Ministry of Justice with the view of improving the execution of legal decisions. The finality of this reform consists in reducing the number of applications against Moldova in front of ECHR related to unexecuted legal decisions;
- The UN Convention concerning the Rights of Persons with Disabilities was ratified<sup>17</sup>;
- The freedom of peaceful association was ensured, as legislation on political parties was improved by suppressing the regulation requiring the dissolution of parties which did not participate with candidates in two consecutive parliamentary electoral campaigns or got at these elections fewer votes than the number of members needed to register a party<sup>18</sup>. The cancellation of this regulation rescue small, young and non-parliamentary parties. By consequence, two new parties were registered in 2010: the Roma Social-political Movement of the Republic of Moldova and the Party "Patriots of Moldova"<sup>19</sup>. According to MJ data, 266 public associations were recorded in the monitored period, compared with 149 associations registered in January-September 2009. The number of registration refusals decreased from 54 in January-September 2009 to 3 decisions in September 2009 – June 2010<sup>20</sup>;
- The Council of Europe Committee of Ministers finished the examination of cases of Metropolitan Church of Bessarabia and Others and True Orthodox Church of Moldova and others versus RM, finding that Moldova fulfilled the requirements needed to guarantee the freedom of religion and freedom of religious association by introducing a new record system for religious denominations<sup>21</sup>. In particular, it modified Article 54 of the Contravention Code, removing the regulation on expulsion of foreigners who conduct religious activity in public places without notifying local authorities beforehand<sup>22</sup>. This amendment extends the religious freedom on Moslems as well<sup>23</sup>;

<sup>8</sup> <http://www.venice.coe.int>, Common Opinion no. 484/2008 of the Venice Commission concerning the Electoral Code of Moldova on 10 April 2008, as of 23.10.2008;

<sup>9</sup> Law No. 125 as of 23.12.2009;

<sup>10</sup> Law No. 131-XVIII as of 23.12.2009;

<sup>11</sup> Law No. 119 as of 18.06.2010;

<sup>12</sup> For more details, see Gurin C and Botan I, "Recommendations by international institutions concerning electoral legislation and procedures in the Republic of Moldova", Chisinau, 2010, [www.e-democracy.md](http://www.e-democracy.md);

<sup>13</sup> <http://www.venice.coe.int>, Common Opinion No. 576 / 2010 of the Commission concerning the draft amendment to the Electoral Code from June 7, 2010. There are some regulations including on allowing soldiers to participate in local elections, ensuring representation of national minorities in elected institutions and authorising regional political parties etc.

<sup>14</sup> The register was tested at early local elections in Singera town on May 16 and 30, 2010.

<sup>15</sup> The monitoring was performed by Promo-Lex Association, reports are available at <http://www.promolex.md/upload/publications/ro/>;

<sup>16</sup> The Parliament adopted the law on June 18, 2010, but it was not yet published in Official Gazette when this report was published.

<sup>17</sup> Although the Parliament ratified it on July 7, 2010, the law on ratification of Convention was not published in Official Gazette when this report was published, and therefore, it was not enforced;

<sup>18</sup> GD as of 12.02.20010, Law No 81 as of 07.05.2010;

<sup>19</sup> The Roma Social-political Movement of the Republic of Moldova was registered on March 21, 2010 and the Party "Patriots of Moldova" was registered on June 30, 2010, [www.justice.gov.md](http://www.justice.gov.md);

<sup>20</sup> MJ, June 2010, [www.justice.gov.md](http://www.justice.gov.md);

<sup>21</sup> [http://www.coe.int/t/cm/home\\_en.asp](http://www.coe.int/t/cm/home_en.asp), sitting of the Council of Ministers from March 2, 2010. Following this Resolution, PACE ceased monitoring Moldova in terms of freedom of religion, a supervision introduced in 1996.

<sup>22</sup> Law No. 25 as of 4.03.2010;

<sup>23</sup> According to MJ, the registration of Moslem denomination is delayed because they do not respect legal requirements on registration of religious denominations;



- The normative framework on prevention and combat of domestic violence was improved.<sup>24</sup> The shortage of funds could compromise the good enforcement of legislation;
- In May 2010, the Republic of Moldova was elected for the first time as member of the Human Rights Council for the period 2010-2013.

#### Shortcomings and problems:

- Although the number of violations related to freedom of assembly is on the decline, there are cases when peaceful assemblies are restricted<sup>25</sup>, a situation confirmed by ombudsmen too. Breaches are linked to the lack of practices by public authorities to implement the law on public assembly;
- The Republic of Moldova did not ratify so far the Rome Statute of the International Criminal Court, despite engagement assumed under the EU-Moldova Action Plan 2005-2008<sup>26</sup>;
- The new National Action Plan on Human Rights is not approved to replace the old NAPHR expired in 2008. A draft NAPHR was tabled in spring 2009, but was removed from the MJ website after the April 7-8, 2009 events;
- A case of instigation to ethnic and religious hatred with profanation of Jewish religious symbols was recorded and the police handled it inefficiently<sup>27</sup>;
- The European Chart of Regional and Minority Languages was not ratified;
- The law on prevention and combat of discrimination was not approved<sup>28</sup>;
- According to conclusions on human rights in Moldova expressed in October 2009,<sup>29</sup> the UN Committee for Human Rights signalled the lack of a great progress in implementing some previous recommendations. In particular, it indicated failure to improve conditions in detention facilities, trafficking in persons, detention term before lawsuit, independence of justice, freedom of religion, participation of women in decision-making organs, use of abortion instead contraception methods, discrimination of Roma;
- According to CHRM data for 2009, most of public complaints signalled violation of private property, right to work and social guarantee, access to justice, and right to security and personal dignity<sup>30</sup>;
- Law courts do not protect victims of domestic violence, according to experts from the OSCE Mission to Moldova. This fact weakens the law on prevention and combat of domestic violence<sup>31</sup>;
- Policemen illegally arrested people from the Transnistrian region and violated their rights (right to legal advice, right to contact relatives etc.)<sup>32</sup>;

## Prevention of torture. Rights of detainees

#### Progress:

- The parliamentary Investigation Commission to elucidate the causes and consequences of events after April 5, 2009 tabled a report which signals disproportion and illegality of actions taken by police organs during the April 2010 riots and illegality of actions taken by judges against persons held after protests. The report recommends the Prosecutor-General's Office and Interior Ministry to investigate all cases relating to people who were held and tortured and faced inhuman and degrading treatments, and sanction the guilty, inclusively former Interior Ministry authorities<sup>33</sup>. In essence, the conclusions and recommendations of the report do not bring new information and repeat the CoE assessments and recommendations from 2009<sup>34</sup>;
- After the new structure of the Prosecutor-General's Office was approved<sup>35</sup>, an anti-torture division was set up to coordinate investigations in inhuman and degrading treatments at republican level. The Prosecutor-General's Office opened a hotline in all country's districts to let people signal torture, inhuman and degrading treatments, as well as other human rights violations by public functionaries, law enforcement organs;
- According to a report by Prosecutor-General's Office, 233 criminal charges were filed against police organs in 2009, of which 58 cases on torture charges and 87 on misuse of authority with violent consequences. Sixty-five criminal cases were delivered to law courts, of which 12 for torture, 13 for misuse of authority with violent consequences. Law courts pronounced 32 condemnation sentences (4 on torture charges, 14 for misuse or excess of authority), and 14 cases were closed for various reasons, including administrative responsibility<sup>36</sup>. The minimal number of policemen sentenced to detention terms for torture charges may be explained by failure of judges to realise the gravity of torture;
- In 2009 the Ministry of Interior started reforming the police system in order to protect rights and freedoms and prevent torture, inhuman and degrading treatments by police organs. The reformation process opened cooperation with civil society<sup>37</sup>, seminars to inform police organs in connection with causes and methods to settle

<sup>24</sup> The framework regulation on organisation and functioning of rehabilitation centres for victims of domestic violence was adopted, GD No. 129 as of 22.02.2010.

<sup>25</sup> Prohibition of the meeting of sexual minorities on May 2, 2010 by Court of Appeal at the request of local public authorities; cancellation by Chisinau City Hall of the authorisation issued to PCRM to organise protests on June 12 and 13, as several applications were submitted for the same day and place.

<sup>26</sup> Draft law adopted by Government on 14.12.2007 was delivered to the Parliament on January 29, 2008.

<sup>27</sup> The anti-Semite manifestation on December 13, 2009. The Chisinau Police Department filed an inquest against priest Anatolie Cibric, organiser of the anti-Semite demonstration.

<sup>28</sup> The draft law and recommendations by civil society and international organisations were submitted to the Ministry of Justice in 2007.

<sup>29</sup> The conclusions were tabled during the 97<sup>th</sup> session of the Committee on October 12-30, 2009, in Geneva. The report is available at <http://www2.ohchr.org/english/bodies/hrc/hrcs97.htm>.

<sup>30</sup> [www.ombudsman.md](http://www.ombudsman.md);

<sup>31</sup> Statement delivered by Angelina Zaporojan-Pirgari at the national conference "Fundamental human rights and freedoms – supreme values" organised by the Human Rights Centre of Moldova on December 9, 2009.

<sup>32</sup> Cases of journalist Ernest Vardanian and Ilie Cazacu, accused of espionage for Moldova, cases of four young people arrested in February 2010 for an alleged crossing of the border between Republic of Moldova and the so-called Transnistrian republic etc.

<sup>33</sup> PD No. 159 as of 08.07.2010;

<sup>34</sup> <http://assembly.coe.int/>.

<sup>35</sup> PD no.77 as of 4.05.2010;

<sup>36</sup> [www.procuratura.md](http://www.procuratura.md);

<sup>37</sup> The Ministry of Interior signed partnership agreements on protection of human rights with several NGOs in the period concerned.

violation of human rights. The MI Action Plan for 2010 was approved to implement recommendations by UN Committee against Torture<sup>38</sup>;

- The Interior Ministry, prosecutor's office and law courts participate in a dialogue with the view of working out a National Plan on Prevention of Torture in the Republic of Moldova<sup>39</sup>.

#### Shortcomings and problems:

- Temporary detention facilities (TDF) were not transferred from MI jurisdiction to MJ (objective 4 of EUMAP). The Ministry of Justice explains the delayed transfer through a lack of funds needed to build new arrest facilities;
- According to the report by the National Torture Prevention Mechanism for 2009, as well as other human rights organisations, detainees in police custody or detention still face torture in preventive detention facilities and prisons, though at a smaller extent. Detention conditions are mainly inappropriate to international standards. The preventive detention facility of the Leova Police Department was closed in April 2010 because of inappropriate detention conditions<sup>40</sup>. The CoE Committee for the Prevention of Torture (CPT) signalled so far violence in police custody in Moldova and recommended authorities to reduce this phenomenon<sup>41</sup>. Recommendations included the elaboration of a National Anti-Torture Action Plan;
- A report by Amnesty International Moldova concludes that the impunity climate against policemen to blame for ill-treatment of detainees persists in spite of declared efforts of authorities. Few charges were filed against policemen who abused of authority during April 2009 riots. On the other hand, many victims of ill-treatment did not complain either due to fear of police or due to distrust in justice<sup>42</sup>.
- Commissions in charge with monitoring human rights in detention facilities, which MLPA should set up before July 2009, were not established so far<sup>43</sup>. After dissolution of MLPA, neither the Ministry of Justice nor the Ministry of Construction and Regional Development assumed responsibility with enforcing this provision of the European Integration Agenda, Priorities for 2009.
- Human rights NGOs accuse the Prosecutor-General's Office and Ministry of Interior of delaying investigations against policemen who are to blame for torture and ill-treatment after the April 2009 riots, as well as judges who directed lawsuits against detainees after protests, with violation of all legal norms<sup>44</sup>;
- The National Torture Prevention Mechanism is obstructed by decision-making officials from monitored institutions. The lack of funds bars the normal functioning of the mechanism.
- In 13 out of 19 applications reported by ECHR to Moldovan Government in January-March 2010 the applicants signal torture and ill-treatments<sup>45</sup>.

## Rights of the child

#### Progress:

- A national campaign called "A Violence-Free Family is a Healthy Family" was launched to raise awareness of population.<sup>46</sup>
- A national action plan for 2010-2011 was approved to protect the rights of children without parent care. Although the plan contains a complex set of measures, its main shortage is the lack of funds to cover them.<sup>47</sup>
- Detention conditions for minor detainees from the Chisinau-based Prison No. 13 were improved<sup>48</sup>;
- CHRM tabled a project aimed to build local Child Advice Council advising the Ombudsman for Children. The goal of this project is to inform children about violation of their rights<sup>49</sup>.

#### Shortcomings and problems

- Formal statistics about overall number of abused children and children without parent care are unavailable;
- Negligence of parents is on the rise, and this turns into hurting or death of children. Legislation in effect does not stipulate appropriate sanctions for those negligent with children;
- Current practices of hearing children who are victims or witnesses by law enforcement bodies do not protect interests of children and reduce the quality of testimonies collected by criminal officers<sup>50</sup>;
- The general elementary and secondary education system covered in 2009/2010 4.7 percent less children (413,700 children compared with 434,100) than the precedent year<sup>51</sup>;
- After three years of reformation of residential institutions, the number of children integrated into adoptive, biological and extended families counts for 1,800 only, and 10,000 children were institutionalised. When the reform was started authorities promised to reduce the number of children in residential institutions down to 6,000 by 2012.

<sup>38</sup> <http://www.mai.md/node/3464>.

<sup>39</sup> The dialogue was initiated within the roundtable "Penal remedies against torture and other inhuman and degrading treatments" on October 20, 2009, as part of the project "Prevention of Torture" funded by EU and co-funded by UNDP Moldova;

<sup>40</sup> CHRM, [www.ombudsman.md](http://www.ombudsman.md), Ladom;

<sup>41</sup> The report to the Moldovan Government regarding the visit by the European Committee for the Prevention of Torture and Degrading Treatment or Punishment (CPT) from July 27-31, 2009, published on December 14, 2009, <http://www.cpt.coe.int/documents/mda/2009-37-inf-eng.pdf>;

<sup>42</sup> Amnesty International Moldova, "Torture and ill-treatment by police: still normal in Moldova", November 2009, [www.amnesty.md](http://www.amnesty.md);

<sup>43</sup> According to the "European Integration Agenda. Priorities for 2009", [www.integrare.gov.md](http://www.integrare.gov.md);

<sup>44</sup> Declaration from 26.01.2010 signed by the Institute for Human Rights from Moldova (IDOM), "Promo-Lex" Association, Centre for Rehabilitation of Torture Victims "MEMORIA", Resource Centre of Nongovernmental Organisations for Human Rights (CReDO), Public Organisation "Juristii pentru Drepturile Omului", National Centre of the Roma, Amnesty International Moldova, Civic Association "Hyde Park";

<sup>45</sup> [www.lhr.md](http://www.lhr.md);

<sup>46</sup> The campaign is held by UNFPA, UN Population Fund and International Centre for the Protection of Women's Rights "La Strada";

<sup>47</sup> GD No. 450 as of 02.06.2010;

<sup>48</sup> MJ, June 2010, [www.justice.gov.md](http://www.justice.gov.md);

<sup>49</sup> HRCM, March 2010, [www.ombudsman.md](http://www.ombudsman.md);

<sup>50</sup> The Chisinau-based centres "Amicul" and "La Strada" are the only buildings providing rooms for hearing of minors.

<sup>51</sup> National Bureau of Statistics, "Activity of primary and general secondary education institutions at beginning of academic year 2009/2010", [www.statistica.md](http://www.statistica.md).

## Fulfilment of CoE recommendations / Execution of ECHR decisions

### Progress:

- Some recommendations from CoE Resolution 1666 (2009) were fulfilled, in particular concerning modification of Electoral Code (reduction of electoral threshold, suspended restriction of holders of dual citizenship from running public offices) and setting up the commission to investigate the events after April 7, 2009;
- The UN Convention on the Rights of Persons with Disabilities was ratified.

### Shortcomings and problems:

- Forty percent of 217 applications reported by ECHR to Moldovan Government in 2009 envisaged unexecuted rulings
- A new law on the status of the Chisinau municipality was not adopted, despite the timetable of legislative actions assumed by Moldova in front of CoE<sup>52</sup>;
- The International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families and the International Convention for the Protection of All Persons from Enforced Disappearance were not ratified.

## Cooperation with civil society

### Progress:

- The new governance intensified the dialogue with civil society by resetting the National Council for Participation. The council aims to consult civil society, business environment and academia while drafting and enforcing strategic planning documents of the country and work of ministerial colleges and/or advisory teams<sup>53</sup>. NGO representatives participate in colleges of many ministries;

### Shortcomings and problems:

- Many decisions are made and promoted in unfair conditions, without public participation<sup>54</sup>;
- Limited capacities of civil society to provide expertise to public authorities in narrowed areas;
- Poor participation of civil society in decision-making process<sup>55</sup>;

## Freedom of media and access to information

### Progress:

- Government decisions made before 2009 are being disclosed;
- Amendments to the Audiovisual Code were adopted to change the nomination of members to the watchdog ACC and Board of Observers (BO), as well as the voting procedure inside ACC and BO, with the purpose to relieve the BO activity<sup>56</sup>;
- The law on freedom of expression was adopted<sup>57</sup>;
- A media self-regulation mechanism called Moldovan Press Council was instituted<sup>58</sup>;
- Two media holdings joined the media market to consolidate media pluralism;
- A certain opening of authorities toward media is observed and pressures against media are seemingly on the decline<sup>59</sup>;
- CCA extended and issued new licences to TV and radio channels, including Pro TV Chisinau and radio channel Vocea Basarabiei, with the latter being refused for many years to be extended the broadcasting network;
- The Public Broadcasting Institution is being reformed, as a new administration was selected under contest.

### Shortcomings and problems:

- The Republic of Moldova degraded in terms of press freedom, according to the world press freedom rating<sup>60</sup>, as well as in terms of media durability<sup>61</sup>;
- Functionaries keep breaching the law on access to information and public acquisitions have a shadow rather than transparent nature<sup>62</sup>;
- Media NGOs criticised the legislative initiative to increase the number of licences which a broadcaster can hold in an administrative unit, fearing that it would encourage monopoly on broadcasting market<sup>63</sup>;

<sup>52</sup> PD No. 284-XVI as of 11.11.2005;

<sup>53</sup> Following the contest for selection of members to the National Council for Participation, the council is made of 30 civil society representatives.

<sup>54</sup> Draft laws and Government decisions are adopted under urgent procedures, and they are not available for public talks.

<sup>55</sup> See the Parliament Report on contributions of civil society from 14.07.2010.

<http://www.parlament.md/SOCIETATECIVILA/Rapoarte/tabid/109/ContentId/31/Page/0/Default.aspx>.

<sup>56</sup> Law No. 42 as of 20.10.2009.

<sup>57</sup> Law No. 64 as of 23.04.2010.

<sup>58</sup> [www.consiliuldepresa.md](http://www.consiliuldepresa.md).

<sup>59</sup> Conclusions of the memoriam on freedom of the media in Moldova from May 3, 2009 to May 3, 2010 drafted by the Electronic Press Association (APEL) and CJI.

<sup>60</sup> Rating worked out by Reporters Sans Frontieres in 175 countries. Moldova ranked the 114<sup>th</sup> place in 2009, compared with the 98<sup>th</sup> place in 2008, <http://www.rsf.org/en-classement1003-2009.html>.

<sup>61</sup> According to the Media Durability Index for 2010, Moldova garnered 1.61 points compared with 2009, when it held 1.81 points (0 is the minimal level and 4 is the maximal level). [http://www.irex.org/programs/MSI\\_EUR/index.asp#html](http://www.irex.org/programs/MSI_EUR/index.asp#html).

<sup>62</sup> Conclusions of a report monitoring the transparency of public acquisitions drafted by Acces-Info Centre, [http://www.acces-info.org.md/upload/akizitsii\\_ultima.pdf](http://www.acces-info.org.md/upload/akizitsii_ultima.pdf).

<sup>63</sup> Declaration from June 29, 2010 signed by the Independent Journalism Centre, Electronic Press Association, Independent Press Association, „Acces-Info” Centre, Journalistic Investigation Centre, <http://api.md/declarations/10456/index.html>.

- ACC keeps being a political entity which is vulnerable in front of political interference;
- Investigative journalists were intimidated<sup>64</sup>;
- Although most of ministries updated their websites and opened columns on decision-making transparency, the information is not updated or violates the law on decision-making transparency<sup>65</sup>;

## BASIC FEATURES

### Political Dialogue

The electoral period in 2009 froze the political dialogue between the Republic of Moldova and the European Union. Post-electoral developments followed by grave violations of human rights and decision of communist authorities to introduce visa requirements for EU member Romania captured again the attention of EU institutions towards Moldova. The transformation of Moldova into an instability area at the Eastern European border pushed EU to make the first step forward resuming the political dialogue with Moldova, with the purpose to normalise the political situation in country. On June 15, 2009 EU approved the Negotiation Mandate on new EU-Moldova Agreement within the meeting of the General Affairs and External Relations Council (GAERC) in Luxembourg. By making this decision the European Union sent a clear message to political players from Moldova that it would like to strengthen relations with RM, but the political dialogue was resumed and negotiations on the new RM-EU Agreement started just after the honouring of some conditions imposed by the CAERC Resolution "Conclusions on Republic of Moldova". They included among others an equal treatment for all EU citizens in terms of visa policies and respect for good neighbourhood principle, recommending the abolition of visa requirements for Romanian citizens; fair investigation of the April 7 riots jointly with the opposition and international experts; equal access for political parties to public information sources, transparent allocation of media licences and prohibited use of administrative resources against media, NGO and political parties; conduct of free and fair parliamentary elections on July 29, 2009 jointly with OSCE and CoE.

The new Government nominated in September 2009 by the ruling Alliance for European Integration declared the European integration of Moldova as key priority and abolished the visa requirements for Romania, in accordance with the EU requirements, and shortly set up an Investigation commission to elucidate the causes and consequences of developments after April 5, 2009. These political decisions supported by some reforming actions of the Government in the economic sector on the one hand and by an intensive diplomatic campaign by MFAEI in the EU members on the other hand strengthened Moldova's image in front of European organisations and helped resuming and developing the EU-Moldova political dialogue. Therefore, negotiations on a new bilateral political agreement began in January 2010 and moved forward quickly, so that Moldova's development partners including the EU provided in March 2010 financial assistance worth about 2 billion Euros under shape of grants and low-interest credits for economic development of Moldova; and a dialogue on visa liberalisation regime opened in June 2010. Progresses made in the Moldova-EU political dialogue the last year proved that the ruling alliance was able to confirm and make use of the EU confidence despite political tension inside of the alliance, delayed dissolution of parliament and ambiguities linked to constitutional reform. At the same time, rapidity of negotiations on the new Association Agreement turn Moldova into a champion of European integration process within Eastern Partnership on background of Ukraine's reorientation towards Russia.

### Democratic Institutions

Despite the permanent focus of civil society, situation of democratic institutions did not change much, with problems in this area requiring consistent and long-term actions. In particular, in spite of the ongoing reformation of the Ministry of Interior started announced in January 2010, police organs and employees of prisons still use torture and ill-treatments. Few policemen are sentenced on torture charges and the punishment is not too severe compared with gravity of offence. Detention conditions did not improve much. Besides sporadic actions aimed to improve detention conditions for certain categories of inmates (children and women), detainees spend their lives in overcrowded cells, improper detention and work conditions. The situation did not change in area of child rights. Despite positive legal evolutions (action plans, law against domestic violence, etc.), no practical progress is observed. The explanation has origins in shortage of funds to ensure a normal functioning of existing legal framework, as well as low importance of this topic on background of economic crisis faced by Moldova.

Certain legislative progresses were made, as legislative premises for a better functioning of democratic institutions and protection of human rights are no available. The main progress was the amendment and completion to the Electoral Code, which improves the Electoral Code in line with recommendations by Venice Commission. Improvements aim to raise quality and fairness of future electoral processes. However, the completed Electoral Code contains some imperfect legal regulations which could be revealed at the September 5, 2010 constitutional referendum

Other accomplishments include the legal framework on freedom of religion and freedom of religious association, with the latter aiming to end the PACE monitoring on Moldova in terms of religious freedom, introduced in 1996. Another positive signal is the restart of dialogue between civil society and authorities through resettlement of the National Council for Participation. However, the potential of this dialogue has not been used up yet, there are cases of formal cooperation so far. Some positive changes were observed in media legislative framework. The law on freedom of expression and amendments to the Audiovisual Code were adopted, with the latter aiming to relieve the functioning of the Board of Observers of „TeleRadio Moldova”. Since BO resumed activity, the company got a new administration which started a new internal reformation process.

<sup>64</sup> Journalists from „Ziarului de Garda” were intimidated in December while investigating corruption at Cale Ferata company of Moldova.

<sup>65</sup> Monitoring report on decision-making transparency, ADEPT, July 2010.



## 2. CONSOLIDATION OF ADMINISTRATIVE CAPACITY

### Administrative reform / Administrative efficiency

#### Progress:

##### Central Public Administration (CPA) and Local Public Administration (LPA) Reform:

- The CPA structure was modified concomitantly with the investiture of the new Government<sup>66</sup>;
- Actions were taken to implement the CPA Reform Strategy, the Law on public servants and their status<sup>67</sup>;
- Law No. 80 as of 07.05.2010 concerning personnel of the cabinet of public dignities was adopted;
- Public administration staff is being trained;
- The memorandum with IMF stipulates actions related to CPA<sup>68</sup>;
- Actions are taken to implement administrative decentralisation and regional development<sup>69</sup>;
- Independent assessments reveal progresses in implementing CPA reform<sup>70</sup>: fulfilment of recommendations on functional analysis; delimitation of policy drafting functions and service providing functions; building of policy analysis, monitoring and assessment units; introduction of regulation impact analysis; IT modernisation and development within CPA; building of institutional framework to apply budgets on planning and performance basis;
- A special parliamentary commission is set up to modify and complete the legislative framework on decentralisation and consolidation of local autonomy<sup>71</sup>.

##### Information Technologies (IT):

- The share of IT products in Moldovan economy has increased very much<sup>72</sup>; the electronic communication market is on the rise;
- Implementation of electronic governance projects is described as successful<sup>73</sup>;
- The number of Internet subscribers, especially those subscribed to broaden-band access is on the rise<sup>74</sup>;
- New online public services develop (access to information, document issuance, training);
- The Government decided to open the Electronic Governance Centre (GD No. 392 as of 19.05.2010);
- Legislative and normative regulations on IT were adopted<sup>75</sup>, existing legal-normative framework is being modified<sup>76</sup>.

#### Shortcomings and problems:

##### CPA and LPA Reform:

- Some priorities in the area covered by Governing Programme were not accomplished;
- Budgetary resources were allocated so far to unimportant and inefficient sectors<sup>77</sup>;
- A new plan on implementation of the CPA Reform Strategy was not approved and the strategy was not updated;
- Independent surveys signal failures of CPA Reform<sup>78</sup>: the reorganisation process was not consecutive, affected the results of the functional analysis and further decisions; not all policy enforcement organs were subordinated to ministries; methodologies for policy documents were not approved; a single planning and report system was not introduced; information management systems were not elaborated and introduced; strategic planning is not plenary and coherent; training courses did not develop much etc.
- Reorganisations in CPA structure and competence fuelled large funds from allocations for CPA Reform Strategy<sup>79</sup>;
- The Government keeps limiting the local autonomy from choosing the number of employees in LPA units<sup>80</sup>.

##### Information Technologies (IT):

- Many actions in „e-governance” area were not implemented;
- The Internet access, access to good online services is low, especially in rural areas;
- Software piracy is high so far<sup>81</sup>.

<sup>66</sup> Law No. 21-XVIII as of 18.09.2009.

<sup>67</sup> Following were adopted: Law No. 80 as of 07.05.2010 concerning the status of personnel from cabinet of public dignities; GD No. 822 as of 14.12.2009; GD No. 168 as of 09.03.2010 concerning public policy analysis, monitoring and assessment unit within central organ of public administration.

<sup>68</sup> Reduction of expense for public sector and introduction of a new salary system based on merits and performances for public sector functionaries, optimisation of the number of employees in public sector.

<sup>69</sup> GD No. 158 as of 04.03.2010 approving the national regional development strategy; GD No. 608 as of 05.07.2010 on enforcement of some regulations of the law concerning administrative decentralisation.

<sup>70</sup> Survey „Assessment of performances in implementing the central public administration reform strategy in the Republic of Moldova” commissioned and assisted by Soros-Moldova Foundation, Epigraf Publishing House, 2010.

<sup>71</sup> PD No. 89 as of 20.05.2010;

<sup>72</sup> According to estimates, IT covers about 9.5 percent of GDP.

<sup>73</sup> According to the „UN Global E-Government Survey 2010”, the Republic of Moldova climbed some positions.

<sup>74</sup> According to ANRCETI data;

<sup>75</sup> Law on the ratification of the convention concerning legal information and cooperation related to “Information Society Services”; GD No. 389 as of 17.05.2010.

<sup>76</sup> Draft legislative and normative acts, related public consultations;

<sup>77</sup> GD No. 331 as of 30.04.2010; No.252 as of 09.04.2010; No.226 as of 02.04.2010; No.196 as of 18.03.2010; No. 454 as of 02.06.2010 etc.

<sup>78</sup> Survey „Assessment of performances in implementing the central public administration reform strategy in the Republic of Moldova”.

<sup>79</sup> GD No. 895 as of 29.12.2009, and others.

<sup>80</sup> GD No.99 as of 16.02.2010 approving limits of personnel units and budgetary personnel-related spending for central and local public administration authorities for 2010.

## ***Depoliticizing of public administration***

### **Shortcomings and problems:**

- Legislative amendments capable to hit the independence of civil servants and stability of positions were promoted<sup>82</sup>;
- The parliamentary opposition released statements on dismissal and intimidation of civil servants who have contacts with its representatives;
- Many civil servants are not selected under contests<sup>83</sup>.

## ***Stability of governing policy***

### **Progress:**

- No dysfunction was observed in activity of public authorities, debts and budgetary/social payments were honoured on time;
- The economic stabilisation and recovery programme of Moldova for 2009-2011 was approved (GD No. 790 as of 01.12.2009);
- The Government established a Financial Stability Committee (GD No. 449 as of 02.06.2010);
- Relations with international donors were restored, important foreign funding agreements were negotiated and signed;
- Independent surveys reveal more respect for democratic standards<sup>84</sup>;
- Dual citizenship restrictions were abrogated, certain electoral promises were fulfilled, some economic segments were de-monopolised (but the effect is insignificant);
- Government's activity fits available plans.

### **Shortcomings and problems:**

- Economic crisis keeps producing negative effects, budgetary deficit is very large, tariffs and prices of certain categories of products/services are going up;
- Surveys indicate a rise of perceptions about "wrong direction" of actions in country, as well as a serious decline of trust in key state institutions (Parliament, Government, President)<sup>85</sup>;
- Salary rises previously foreseen by legislation were suspended (Law No. 83/03.12.2009);
- Cumulating of offices of legislators and ministers by 9 Government members demonstrated certain political interests and uncertain activity of perspective, and was finally declared unconstitutional<sup>86</sup>;
- According to foreign surveys, Moldova is a country with a high instability rate<sup>87</sup>.

## ***Probity and transparency of governance /Anti-corruption fight***

### **Progress:**

- Legislative and normative actions are undertaken to enforce the law on decision-making transparency<sup>88</sup>; majority of central public administration authorities started ensuring decision-making transparency<sup>89</sup>;
- Moldova's rating in the Corruption Perception Index improved in 2009<sup>90</sup>;
- Actions foreseen by the plan on national corruption prevention and combat strategy for 2007-2009 were taken;
- An action plan was approved for 2010 to implement the national strategy for corruption prevention and fighting<sup>91</sup>;
- The prosecutor-general's office is investigating abuses committed by former government<sup>92</sup>, but effects are not tangible;
- Cases are filed on corruption and related charges<sup>93</sup>, the number of condemnations under such charges increased in 2009, including real sentences (fines and detention terms, interdictions to run high-ranking offices)<sup>94</sup>;
- For the first time, the central control commission for income and property declarations signalled violations by civil servants and dignitaries, and published the declarations by higher-ranking dignitaries<sup>95</sup>.

<sup>81</sup> Statements by AFEPI representatives, 21.04.2010.

<sup>82</sup> Law No. 41 from 20.10.2009; Law No. 98 as of 28.05.2010; Law No. 95 as of 21.05.2010.

<sup>83</sup> Less than 40 percent of employment in CPA authorities is based on contest (report on implementation of the law concerning public office and status of public functionary in 2010), <http://www.rapc.gov.md/file/Raport-Lege158-trim1-2010.pdf>.

<sup>84</sup> Survey „Nations in Transit 2010" by Freedom House.

<sup>85</sup> BPO survey, May 2010.

<sup>86</sup> Constitutional Court Decision No. 9 as of 08.04.2010.

<sup>87</sup> According to "Failed States Index 2009", see [www.foreignpolicy.com](http://www.foreignpolicy.com).

<sup>88</sup> Law No. 72 as of 04.05.2010; GD No. 96 as of 16.02.2010.

<sup>89</sup> ADEPT monitoring report on decision-making transparency, <http://www.e-democracy.md/activities/transparenta-decisionala-1/>.

<sup>90</sup> CPI 2009 issued by Transparency International, [www.transparency.org](http://www.transparency.org).

<sup>91</sup> PD No. 79 as of 04.05.2010.

<sup>92</sup> Investigation of activity of former MID leadership; checking of legality of administration of public patrimony and privatisation in 2001-2009.

<sup>93</sup> CCECC investigated 214 corruption and related cases in the first six months of 2010, a high number of cases was delivered to law courts, but many cases were classified.

<sup>94</sup> According to accounts by prosecutor's office regarding legality and rule of law in country in 2009, [www.procuratura.md](http://www.procuratura.md).

<sup>95</sup> Commission Report from 17.05.2010,

[http://www.mf.gov.md/common/communication/ministrycomun/Declaratia\\_VEN\\_2008\\_completat\\_16.04.2009.pdf](http://www.mf.gov.md/common/communication/ministrycomun/Declaratia_VEN_2008_completat_16.04.2009.pdf)

### Shortcomings and problems:

- The law on decision-making transparency was enacted very late, while enforcement mechanisms are imperfect, there are contradictions between legal, normative and departmental frameworks<sup>96</sup>;
- The legislative activity was not transparent and regular enough, the Parliament does not provide appropriate respect for the concept on cooperation with civil society and law on decision-making transparency<sup>97</sup>;
- The law on conflict of interests is not implemented and regulations of the law on the national strategy of corruption prevention and fighting are partly implemented and were not improved<sup>98</sup>;
- A new national anti-corruption strategy was not worked out; many actions foreseen by the plan on implementation of the strategy of corruption prevention and fighting<sup>99</sup> were not taken on time;
- Surveys reveal that a high number of citizens do not like anti-corruption efforts of authorities and believe that they should increase<sup>100</sup>;
- Income and property declarations of many dignitaries were not published<sup>101</sup>; there are many shortcomings related to declaration and control of incomes and property<sup>102</sup>; appropriate sanctioning for faulty declaration of incomes and property is impossible and not applied;
- The Republic of Moldova is still ranked as a country with a high corruption rate<sup>103</sup>;
- Governance representatives are accused of promoting interests and protectionism<sup>104</sup>.

## BASIC FEATURES

The CPA reform is late, reorganisations and modifications related to political changes suspended the implementation in many areas. A new implementation plan on CPA Reform was not worked out. Reorganisations into CPA produced vertical restructuring up to territorial level; investiture of heads was delayed, being based on political criteria.

Situation in LPA Reform area did not change, clear strategies are unavailable, LPA authorities are mainly on own account and there is a shortage of (human, technical, financial) resources at local level to ensure high-ranking administrative capacities.

Effects of decision-making transparency and public consultations are invisible so far, though legislative and normative amendments, departmental regulations were approved. Mechanisms are imperfect, too, but interest of civil organisations, media, and people in general is low so far, and expertise and contribution capacities are modest.

Moldova's rating in the Corruption Perception Index improved in 2009 but such situations were formerly recorded before or during elections and regresses were further observed. Many factors explaining the low anti-corruption effect may be assessed: imperfect legislation and possibilities to elude it; attitude of law enforcement bodies (insufficient cooperation, low quality of criminal investigations, formal attitude, abuses); general culture of society, toleration of this phenomenon. However, declared and clearly demonstrated political willingness is the key factor to encourage progress against corruption. In this regard, assessments that just 3 (modification of legislative-normative and institutional framework to reduce its corruptibility rate; reduction of bureaucratic burden for business environment in order to reduce corruption area; ensuring transparency of public procurements, competition and combat of unloyal competition in the area of public procurements) out of 10 priority actions of the chapter "Strengthening the national system of integrity and fight against corruption" of the Governing Programme were partly implemented are relevant, but all of them are inefficient.

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<sup>96</sup> See the survey "Concordance of legislation and departmental acts on decision-making transparency", <http://www.e-democracy.md/activities/transparenta-decisionala-1/>.

<sup>97</sup> See in this regard the ADEPT press release „concerning functionality of website, access to information and ensuring of decision-making transparency of the Parliament” from 09.07.2010.

<sup>98</sup> See the survey "Efficiency of anti-corruption policies and actions in the framework of the EU-RM Action Plan" by C.Cojocaru, Arc Publishing House, 2009.

<sup>99</sup> Approved under PD No. 79 as of 04.05.2010;

<sup>100</sup> BPO survey, May 2010;

<sup>101</sup> See also the API press release within the "Estate at Sight" campaign, March 2010.

<sup>102</sup> See the survey „Declaration of estates and incomes by state dignitaries, judges, prosecutors, public functionaries and officials: problems and solution prospects for the Republic of Moldova”, „Bons Offices” Publishing House, 2009.

<sup>103</sup> „Index of Economic Freedom 2010” by Heritage Foundation and The Wall Street Journal.

<sup>104</sup> Promotion of a governmental decision by health minister without public consultation (the case of private clinic which cannot function in the area of "in vitro" assisted reproduction, OMG, Agency, 4 March 2010), cases of some functionaries from the state-run company „Moldovan Railroad” (newspaper Ziarul de Garda, 04.03.2010); decisions by Chisinau City Hall to authorise the location of some commercial facilities, issued without consent of local council.

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### **3. TRANSNISTRIAN CONFLICT**

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#### ***New Transnistrian settlement approaches***

In January 2010, during a meeting with Russian Foreign Ministry officials, Transnistrian settlement officials, Deputy Reintegration Minister Victor Osipov expressed the attitude of the new Moldovan governance towards Transnistrian settlement issue:

- Government's opening to dialogue and cooperation in the Transnistrian settlement area;
- Promotion of actions aimed to build confidence and better environment for the "5+2" negotiations;
- Necessary conditions for free move of people and commodities from both banks of the Dniester;
- Support to population and facilities for economic agents from Transnistria;
- Improving the functioning mechanism of the Joint Control Commission and peacekeeping mechanism in the Security Zone.

#### ***Pleading for single legal, economic and security area***

Presidents of Ukraine and Russia Viktor Yanucovich and Dmitri Medvedev signed three declarations in Kiev on May 17, 2010: concerning European security; concerning security in the Black Sea area; concerning the Transnistrian conflict. The Transnistrian issue was obviously approached under Matryoshka principle in the regional (Black Sea area) and European frameworks. According to the declaration concerning the Transnistrian conflict, Russia and Ukraine as guarantors and mediators of the fair and comprehensive Transnistrian settlement process call for: settling the Transnistrian conflict definitively on a peaceful way exclusively; building a single legal, economic and security area; respect for sovereignty, territorial integrity and constitutional neutrality of the Republic of Moldova; ensuring sure guarantees for the special status of Transnistrian region.

In order to reach the declared goals the following actions are recommended: to give up unilateral actions; building confidence between Republic of Moldova and Transnistrian region; to assist expert groups to achieve sustained social-economic development in the region and to consolidate confidence-building measures in commercial-economic, humanitarian, transport, etc. sectors; to restore civil society institutions, protect human rights and freedoms in accordance with international law norms and principles; to honour previous agreements within negotiation process; to accept an equal-footing dialogue between Chisinau and Tiraspol authorities with a view of finding a special guaranteed status for Transnistrian region. At the same time, the statement underlined: the stability-focussed role of the current peacekeeping mission to the region; the positive role of the March 18, 2009 declaration; readiness to turn the current peacekeeping operation into an OSCE-controlled mission in the Transnistrian settlement framework; the need of building conditions to resume the "permanent consultations on political issues within the Transnistrian settlement process, with the participation of political representatives of Moldova, Transnistrian region, mediators from the Russian Federation, Ukraine, OSCE and EU and US observers; the necessity of cooperation and coordinating efforts of all participants in the "5+2" negotiations with the view to accelerate the political settlement of the Transnistrian conflict.

#### ***Transnistrian problem on common EU-Russia agenda***

Immediately after the common Russian-Ukrainian declaration, the EU High Representative for Foreign and Security Policy, European Commission Vice President Catherine Ashton called for the unconditional and immediate resumption of the Transnistrian settlement negotiations in the "5+2" format, inviting "all parties to support Moldova's efforts in implementing confidence-building actions for the benefit of population from the Transnistrian region." It was announced on June 7, 2010, during a Marburg meeting between German Chancellery Angela Merkel and Russian President Dmitri Medvedev that the Transnistrian problem could be included into agenda of the Russia-EU Foreign and Security Committee at level of foreign ministers. In this regard, a common statement by the two officials was released: "The Committee could be a forum to exchange opinions regarding current problems relating to international policy and security, could work out basic principles for common Russia-EU civil and military operations aimed to overcome the crisis, share opinions and recommendations on concrete cooperation matters, including various conflicts and crisis situations, which Russia and the European Union help settling as part of appropriate international formats." In this framework, the Russian president noted: "joining efforts could help settling the Transnistrian conflict by reanimating the "5+2" negotiations, involving the parties and attracting additional possibilities, inclusively within an eventual Russia-EU security forum." Moldovan authorities welcomed the initiative by Russian and German leaders aimed "to institutionalise the Russian-EU dialogue on foreign and security issues, inclusively on cooperation in managing conflicts and crisis situations, developing joint civil and military missions for this purpose, as well as making a great progress in finding a viable solution to the Transnistrian conflict in the "5+2" format." Two weeks later, on June 24, 2010, Russian Foreign Minister Sergey Lavrov was quoted as saying concerning the results of the ministerial "Weimar triangle" meeting that Russia, Germany, France and Poland call for the resumption of the Transnistrian settlement negotiations in the "5+2" format.

#### **Shortcomings and problems:**

The Transnistrian administration resorted to a series of provocations after the election of the AEI governance, with the purpose to test the reaction of the ruling alliance:

- Moldovan peacekeepers became the target of provocations. In late January 2010, the head of the Moldovan peacekeeping unit from the Security Zone, Aurel Fondos, was held by officers of an illegal Transnistrian check station in the breakaway enclave. According to Moldovan authorities, the arrest of Colonel Fondos violated the



December 3, 2009 decision by the Joint Control Commission (JCC). The Moldovan JCC delegation stressed that the withdrawal of illegal border guard and customs stations of the Transnistrian administration from the Security Zone is permanently requested. Violation of the decision concerned obstructs the peacekeeping operation, breaching the Odessa and Moscow agreements on the peaceful settlement of the conflict in the Transnistrian region of the Republic of Moldova;

- Common citizens of Moldova were targets of provocations. In late January 2010, four Moldovan citizens who are residents of a commune from the right bank of the Dniester located in the Security Zone were held by armed Transnistrian border guards, alleging that they crossed the Dniester on ice and thus crossed illegally the Transnistrian border. Moldovan JCC representatives signalled the absurdity of these charges, as the Transnistrian administration annulled in 2008 the customs fee and border-crossing record for residents from border settlements. The four people were released two weeks later, after Moldovan authorities called upon international organisations and countries involved in the "5+2" Transnistrian settlement negotiations.
- Transnistrian residents, citizens of the Republic of Moldova were targets of provocations. A 24-year-old man, Ilie Cazacu, employed in the Bender tax inspection, was arrested on March 22, 2010, being accused of treason and espionage for Moldova's benefit. Two weeks later, on April 7, 2010, journalist and independent political researcher Ernest Vardanian from Tiraspol was arrested under similar charges – espionage for Moldova's benefit and treason. Both of them run the risk to spend up to 20 years in prison, in line with Transnistrian criminal legislation. It is worth noting that both of them were forced to deliver public self-denunciation statements and accuse of Information and Security Service (ISS) of Moldova, which allegedly attracted them into the intelligence network, leaving them on their account. As well, the prisoners addressed open letters to EU ambassadors to Moldova in a similar manner, notifying them over alleged subversive SIS actions against Transnistria. In this context, Transnistrian security head Vladimir Antuifeev called upon Transnistrian residents to show up at the Transnistrian security ministry (MGB) and denounce themselves, not attend education and healthcare institutions in Moldova, as they run the risk to fall into SIS toils.

*Uncoordinated actions by Moldovan authorities:*

- On June 24, 2010, Moldova's Interim President Mihai Ghimpu issued Decree 376/24.06.2010 to *declare June 28, 1940 as the day of Soviet occupation*, with Article 8 saying that "the Russian Federation, in quality of legal successor of the former Soviet Union, must withdraw its troops and weapons from the territory of the Republic of Moldova unconditionally, immediately and transparently." The Moldovan minister of foreign affairs and European integration, as well as the deputy prime minister for country integration suggested that the interim president did not consult them. The dilemma is should one regards Russia as partner or opponent which strongly resists to the settlement, in the Transnistrian settlement process.

## **BASIC FEATURES**

### **Transnistrian settlement: between stagnation and new approach**

The Transnistrian settlement efforts revived in the first half of 2010, after having stagnated in 2009. Once it took over the governing on September 25, 2009, the Alliance for European Integration (AEI) decided to dissolve the Ministry of Reintegration. Deputy Prime Minister Victor Osipov was entrusted the Transnistrian settlement issue in the AEI government. Transnistrian authorities noted that the dissolution of the Reintegration Ministry is unimportant, as they have never cooperated with this ministry. Contacts between the two conflicting parties developed at level of Moldovan and Transnistrian representatives.

The change of governance in Moldova brought a new potential for unprecedented approaches. Measures aimed to strengthen confidence of citizens from the breakaway enclave were described as actions to settle the existing problems and prelude of country unification mechanisms. In this regard, the economic stabilisation and recovery process in Moldova was sustained by an intense external activity aimed to insert the Transnistrian issue into the process of resettling of Russia-US relations, as well as Russia-EU ties, becoming key chance to settle the Transnistrian conflict.

## 4. JUSTICE

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

#### Progress:

- A series of reforms included into the Governing Programme are underway, laws concerning the reform of attorney system, liberalisation of execution system, amendments concerning the functioning and structure of the Prosecutor's Office were adopted<sup>105</sup>;

The SCM composition was updated, a new prosecutor-general was nominated, self-management organs of prosecutor's office were appointed:

- Superior Council, disciplinary college and qualification college;
- The prosecutor's office reviewed previous decisions which accused certain functionaries, apologised the persons accused under conjuncture-based political influence<sup>106</sup>;
- Law courts took measures to execute the Parliament Decision concerning hearings on ECHR decisions vs. Moldova, execution of these decisions and protection of fundamental human rights and freedoms<sup>107</sup>;
- Reprimanding procedures were opened against guilty judges<sup>108</sup>;
- The number of cases tried by law courts increased and the average monthly burden per judge decreased<sup>109</sup>;
- Technical endowments (computers, software) were allocated with foreign technical support to make public lawsuits<sup>110</sup>; transparency of websites of legal institutions is on the rise<sup>111</sup> and electronic applications in the area were consolidated<sup>112</sup>.

#### Shortcomings and problems:

- Many actions foreseen in Chapter II of the European Integration Agenda, Priorities for 2009 were not fulfilled on time or completely; the judiciary strengthening strategy for 2007-2010 is being implemented with delay;
- The Prosecutor's Office Reform was seriously delayed<sup>113</sup>;
- External reports<sup>114</sup> signal many shortcomings related to organisation and functioning of law courts in Moldova: material, human, organisational, communication needs, necessity to modify the legislation, enhance transparency;
- The Parliament approved a declaration signalling that the judiciary is hit by corruption and political engagement<sup>115</sup>; representatives of executive and legislature keep criticising the situation in the judiciary sector, indicate the persistence of problems<sup>116</sup>;
- Reorganisations, statements and decisions by representatives of executive and legislature fuelled bitter criticism and reactions by Supreme Court of Justice<sup>117</sup>, SCM<sup>118</sup>, who described the actions as interferences, disregard of the judiciary; judiciary representatives believe that the state authorities should provide additional assistance to the judiciary<sup>119</sup>;
- The conflict between legislature and executive on the one side and supreme judiciary representatives on the other side has deepened in 2010<sup>120</sup>;
- The Parliament approved amendments to remove the possibility of contesting documents on appointment or dismissal of certain functionaries, including all the judiciary in the legal department or Constitutional Court, and this could reduce the independence and immovability of judges, SCM members and prosecutors<sup>121</sup>;
- Government representatives are accused of meddling into certain lawsuits<sup>122</sup>;
- Record and case distribution system does not function appropriately<sup>123</sup>, it should be adjusted and maintained permanently but resources are unavailable;
- Although the average monthly burden per judge has decreased, the burden is on the rise in certain law courts, up to 88 cases per month (district economic court). The burden is high in common law courts as well (71 cases per month, despite a certain progress compared with 2008 (87 cases a month));
- Surveys signal a decreasing confidence of people toward judiciary<sup>124</sup>;

<sup>105</sup> Laws No. 113 as of 17.06.2010; No.146 as of 02.07.2010; PD No. 78 as of 04.05.2010, No. 77 as of 04.05.2010;

<sup>106</sup> Cases Pasat, Urechean, Plesca, Chirtoaca.

<sup>107</sup> Letter and notice by SCJ, No. 5s-270/09 as of 17.12.2009.

<sup>108</sup> Twenty-five disciplinary cases were filed up against 27 judges in 2009, with most of them (82 percent) being reprimanded or even dismissed.

<sup>109</sup> Analytical communication on activity of the judiciary in 2009;

<sup>110</sup> Implementation of the Integrated Lawsuit Management Software (ILMS) in 50 courts, audio record software in 153 legal sitting halls;

<sup>111</sup> Websites of CSM [www.csm.md](http://www.csm.md), law courts covered by [www.justice.gov.md](http://www.justice.gov.md), SCJ [www.csi.md](http://www.csi.md).

<sup>112</sup> Online Prosecutor's Office, database „Info PG“;

<sup>113</sup> See the report on legality and rule of law in country in 2009.

<sup>114</sup> Final report drafted as part of the World Bank Grant, component I „Assessing organisation system of law courts and proposing actions to modernise the judiciary in Moldova“, see SCM Decision 327/14 as of 29.10.2009; final report by OSCE Mission on monitoring of law courts; final report;

<sup>115</sup> PD No.53/30.10.2009;

<sup>116</sup> Speech delivered by Minister of Justice during general assembly of judges, 13.02.2010.

<sup>117</sup> SCJ opinion regarding plans to dissolve economic courts (27/11/2009), SCJ Plenary Decision No.7 as of 09.11.2009 regarding withdrawal of the field provided to SCJ to build new headquarters.

<sup>118</sup> Press release by CSM concerning accusations brought by Parliament Speaker against SCM, 09.02.2010;

<sup>119</sup> Speech delivered by SCJ head at the general assembly of judges, 13.02.2010.

<sup>120</sup> The Parliament dismissed SCJ head abusively, the latter got back the office abusively, and the situation developed into conflicts between political authorities and Constitutional Court; SCM was also involved in the conflict and defended the judiciary.

<sup>121</sup> Law No. 95 as of 21.05.2010;

<sup>122</sup> News conference by SA „Hotelul Chisinau“ shareholders from 21.04.2010, Infotag news agency;

<sup>123</sup> SCM Decisions 15/1 as of 12.01.2010, No.322/21 as of 06.07.2010;

<sup>124</sup> BPO survey released in May 2010 reveals 22.9 percent compared with 36.9 percent in November 2009.

## ***Training of specialists in the judiciary / Technical equipment***

### **Progress:**

- Initial and continuous training is held within NIJ, prosecutors and judges attend training courses<sup>125</sup>;
- NIJ gain authority and notoriety among judges, more candidates participate in contests;
- External activities take place to assess continuous training necessities within NIJ<sup>126</sup>;
- The Parliament approved the judiciary funding concept (PD No.39 as of 18.03.2010);
- Law courts keep enjoying endowments funded from outside<sup>127</sup>.

### **Shortcomings and problems:**

- Assessments on the initial and continuous training programme and curriculum are not finished; training supports were not worked out for certain areas (community law, training in ECHR sector);
- External assessments on training needs reveal some shortcomings: the legal framework which regulates the continuous training of judges and prosecutors was not improved and enforced appropriately; audients cannot choose beforehand the training subjects, apply for the courses they want; there are problems related to selection of participants in courses and accordance of courses with their expectations and training needs; training forms are not clear; the lack of funds obstructs the deployment to courses for more than one day; training record is inappropriate<sup>128</sup>;
- Internal conflicts were observed inside of NIJ which hit the image of this institution (NIJ executive director tendered resignation, the vacancy was not completed in the due time); there were problems to employ NIJ graduates into judiciary system;
- The budget of law courts for 2010 is smaller than in 2009;
- Judiciary funding and investment strategies are unavailable; the Parliament approved the concept on funding of the judiciary (PD No. 39 as of 18.03.2010), but the action plan on this concept was not approved and implemented on time.

## **BASIC FEATURES**

The situation in the judiciary sector captures the attention of national authorities, civil society, media and international partners and community organisations. Progresses are observed in almost all areas, but their impact is unimportant so far, and society does not feel it.

Despite their big importance on internal and external agenda, reforms in the judiciary sector are not implemented appropriately and systematically, without negative interferences. The analysis of the chapter "Judiciary Reform" from the Governing Programme reveals negative trends: none of priority actions (6) was achieved in the section "*Reformation of the self-management system and organisation of the judiciary*"; four out of 12 priority actions in the section "*Reformation of the justice-making and management system*" have been partly initiated; just one out of three priority actions was partly implemented in the section "*Reformation of the Prosecutor's Office*"; two out of four actions were partly implemented in the section "*Reformation of procedural legislation*"; none of (3) planned priority actions was entirely implemented in the section "*Reformation of the state security forces*".

It is worth noting that about 30 out of 37 general objectives of the action plan to implement the strategy of strengthening the judicial system for 2007-2010 (PD No. 174-XVI as of 19.07.2007) were partly implemented or were not implemented (no progress was observed) until late July 2010, though most of them should be executed by the end of 2009.

In terms of judicial reformation priorities political authorities should pay more attention to previous proposals in the area, which SCM reiterated recently at the request of the executive regarding priorities of Moldova-EU relations<sup>129</sup>: creation of a collegial organ to coordinate reforms in the judicial sector, and the legal reform in general; change of the structure of law courts in order to protect fundamental rights in accordance with the ECHR requirements; adjustment of legislation on juridical organisation, status of judge, SCM to European standards and CoE requirements; transfer of the legal management department from the Ministry of Justice to SCM; transfer of the right to manage budgetary allocation to each law court; making appropriate conditions for each judge (separate office and enough sitting halls to respect the solemnity of lawsuit for the rule of law); providing necessary judges, actuaries, referents, advisers, specialists, audio-video records, software administrators; establishing under constitutional norm the necessary annual allocations for the whole judiciary system (at least 1 percent of the annual budget of the country); opening the institution of reserve judges; working out reasonable working norms and tasks for judges; simplifying (optimising) nomination procedures for judges.

<sup>125</sup> Report on NIJ activity, [www.inj.md](http://www.inj.md).

<sup>126</sup> Report assessing the continuous training needs of judges and prosecutors within NIJ drafted by C.Cojocaru under CoE aegis, available at <http://www.inj.md/node/275>.

<sup>127</sup> Renovation of headquarters, computers, software etc.

<sup>128</sup> Report assessing the continuous training needs of judges and prosecutors within NIJ;

<sup>129</sup> SCM Decision No. 268/18 as of 08.06. 2010.

## 5. ECONOMIC REFORMS AND DEVELOPMENT

### *The standards of living*

#### **Progress:**

- After generous salary rises in budgetary sector in early 2009, the new Government could negotiate with IMF the further salary increase in education by 24 percent only. In consequence, the average monthly wage in education sector increased the most from the beginning of the year (by 20.7 percent compared with 6.7 percent in average on economy). On the other hand, wages kept decreasing in almost all branches of the real sector, despite first signs of economic recovery. Just some branches such as finance, transportation and communication, and agriculture make exception.
- Following the decline recorded for more than a year, remittances seemingly recover along with the economic stabilisation in countries hosting many Moldovans. Thus, remittances increased in 2010 in annual terms, and this encouraged the internal consumption, which also changed the negative direction of the trend followed in 2009.
- The average monthly salary on economy for 2010 was set to 2,950 lei<sup>130</sup>. However, this rate is an indicator needed for budgetary estimates, rather than a salary level to be reached for sure. As well, the guaranteed minimum wage was established in the real sector at 6.51 lei per hour or 1,100 lei per month (for 169 hours per month)<sup>131</sup>. However, this level is lower than in 2009 (by 7.3 percent). Even more, it reaches 90 percent in agriculture and silviculture and 54.5 percent for auxiliary personnel in other branches.
- Social insurance fees were indexed by 4.3 percent starting April 1, 2010<sup>132</sup>;
- In accordance with the Economic Stabilisation and Recovery Programme of Moldova, the law concerning the social protection for some people<sup>133</sup> was modified to remove the nominative compensations starting January 1, 2010. However, the law does not remove all nominative compensations for current beneficiaries, nor it introduces a social protection system based on incomes. Net revenue norms<sup>134</sup> have been elaborated to optimise the providing of normative compensations.

#### **Shortcomings and problems:**

- Social indicators lately react to first economic recovery signs. Thus, the unemployment rate continued to grow in Q1 2010, reaching the record of 9.1 percent. As well, the number of job seekers registered with the National Employment Agency increased by 41 percent this year. At the same time, the number of employed job seekers is in decline, as enterprises look for ways to recover crisis-related losses and do not seek higher personnel number. This situation presses the state social insurance budget, which needs additional transfers from state budget.
- Natural gas tariffs (in February and May) and heating and electricity prices (in February) increased in 2010. The higher tariffs were felt in the Consumer Price Index, hitting seriously the people in need. In this regard, the Parliament adopted the law on social compensations for the heating period of 2010<sup>135</sup>, which introduces social compensations for certain categories in need. The social compensation was set at 130 lei, but does not cover the expenses of many households.
- Real wages could stay at the level of 2009 because of high inflationist pressures this year, as long as companies do not recover crisis-related losses to afford higher salaries. Thus, the difference between average monthly wage and minimum consumer basket could deepen in 2010.

### *Strengthening the economic development*

#### **Progress:**

- Once the new Government was elected, a council was established to coordinate the elaboration of the economic stabilisation and recovery plan of the Republic of Moldova<sup>136</sup> and the Economic Stabilisation and Recovery Programme of Moldova for 2009-2011 was elaborated. The programme is based on three key components: stabilisation of public funds, consolidation of economic activity and promotion of an efficient and fair social protection system.
- The end of 2009 stabilised macroeconomic indicators on basis of first signs of recovery of internal and external demand. In particular, the GDP exceeded pessimistic expectations of Government and IMF, declining by 6.5 percent compared with the last year. On the other hand, the internal consumption increased much in first months of 2010, and this rise would shortly bring back the positive trend of GDP. Official statistics confirmed a 4.5-percent GDP growth in Q1 2010.
- The Government started negotiations on the draft credit agreement with the International Development Agency concerning economic recovery development policies and set up a negotiation team<sup>137</sup>.

#### **Shortcomings and problems:**

- Moldova would probably return for a short term to the old economic growth model based on internal consumption. It could be already observed in Q1 2010, as retailing and public services reacted immediately to

<sup>130</sup> GD No. 773 as of 27.11.2009.

<sup>131</sup> GD No.165 as of 09.03.2010.

<sup>132</sup> In accordance with Law No. 156 as of 14.10.1998 concerning state social insurance.

<sup>133</sup> Law No .135-XVIII as of 29.12.2009.

<sup>134</sup> Order No. 188 as of 16.11.2009.

<sup>135</sup> Law No.15 as of 26.02.2010.

<sup>136</sup> GD No. 588 as of 12.10.2009.

<sup>137</sup> GD No.329 as of 30.04.2010.

the rise of remittances and increased much (retailing by 7.8 percent in 4 months and public services by 7.9 percent).

- At the same time, investments in fixed capital continued in Q1 2010 the negative trend of 2009, as they decreased by 23.4 percent. The low demand for housing produced the strongest decline of investments in fixed capital in early 2010, and investments in fixed capital do not have the potential needed for recovery as long as this demand is low.
- Year 2010 will be the second consecutive year of economic instability, and this fact hits FDI. FDI dropped by 87.8 percent in 2009, compared with the last year, revealing both the impact of global economic crisis and the instable political climate. Of course, positive evolutions could be recorded in 2010 after such a strong decline and such a low basis of comparison. According to accounts on balance of payments, the net inflow of direct foreign investments into Moldovan economy increased by 43 percent in Q1 2010, compared with 2009, but their absolute volume is very small (47.5 million dollars). In order to achieve a great progress, the Government is due to take measures aimed at improving the business climate, improving Moldova's image in international ratings and gain confidence of foreign investors.

## ***Macroeconomic and financial stability***

### **Progress:**

- The March 24-25 meeting of Moldovan authorities and donors in Brussels was the key event aimed to ensure macroeconomic stability since investiture of Moldovan Government. Moldova was promised USD 2.6-billion financial aid to reach objectives of the "Rethink Moldova" programme, which introduces medium-term development priorities (ruling and management reforms and infrastructure projects). The opening of donors also reveals their confidence with development prospects of Moldova.
- The Moldovan Government got a loan worth USD 95-million with a 0.25 percent interest from IMF for a 10-year term to fund the budgetary deficit.
- The Polish Government provided a credit worth USD 15-million to Moldova to cover the budgetary deficit.
- In 2010 the National Bank introduced the direct inflation target strategy which means better inflation monitoring and more responsibility from NBM and Government, which must adjust monetary and governmental policies.
- Inflationist pressures observed since second half of 2009 made the national bank increase by 2 percentage points the basic rate for short-term monetary policy deals from minimum 5 percent in September 2009 up to 7 percent at present.

### **Shortcomings and problems:**

- The National Bank gave up the goal of maintaining a 5-percent inflation rate ( $\pm 1$  percent), as prices in June 2010 exceeded by 7.8 percent those recorded a year ago and inflationist pressures keep their way. The rise of administrated prices (tariffs) in February and May produced a chain increase in price, which fuelled the inflationist target along with the growth of monetary mass. Now a 10-percent inflation rate is expected, this becoming a major problem for maintaining the macroeconomic balance in Moldova.
- Although liquidity coefficients in banking system are better than expected, the high rate of uninteresting credits hits the banking. The share of unfavourable credits reached 17.47 percent in late June (by 1.1 percent more than in late 2009), and expired credits and expired loans which do not bring interest count for 17.98 percent (by 0.3 percent more than at the beginning of the year). The intoxication of the banking with unfavourable assets represents the worst impact of financial crisis on Moldovan banking system. However, the situation of the banking has been stabilised and certain indicators have even improved in the last three months.
- The unfavourable situation in banking system made commercial banks maintain the pretty high interest rate such that to cover potential losses related to high share of unfavourable credits. However, positive trends strengthen, so that interest rates accounted for 16.46 percent for credits in lei and 10.49 percent in foreign currency in June (compared with 18.94 percent and 13.09 percent a year ago).

## ***Fiscal transparency and durability***

### **Progress:**

- The budgetary deficit count for about 7 percent of GDP in late 2009, by about 9 percent less than expected by Government. Thus, reducing the budgetary deficit down to 3 percent in 2012, as agreed with IMF, is plausible.
- The tax policy was modified in 2010. It is expected to increase the territorial arrangement tax, tax for location of trade facilities, excises for fuels, beer, spirits, tobacco, jewels, and luxury cars.
- For the first time since the beginning of economic crisis the public budget revenues increased in 2010 compared with the last year. The rise was due to recovery of internal demand (collected VAT increased by 15.5 percent in four months of 2010 compared with 2009) and higher excises for some products (fuels, tobacco, cosmetics etc.). Budgetary revenues increased more by mid-2010.
- A great evolution is the fact that the Ministry of Transport and Road Infrastructure of Moldova published on May 2010 the report on the use of traffic fund in 2009, after the stipulation of the traffic fund law which foresaw annual reports was breached for many years.

### **Shortcomings and problems:**

- Restrictions related to obligation to reduce budgetary deficit the next years make the Government apply all possible methods to lower budgetary expenses. Thus, big needs will be balanced with limited funding possibilities. Wages of budgetary employees will not be increased on short term. However, this is a long-term basic condition to improve public services and combat corruption.
- The state social insurance system is not sustained so far because of the shortage of collected revenues and big needs of transfers from state budget to cover expenses. The pension system reform is unavoidable in the future



and the Government should focus as soon as possible on building the No. 2 pillar of the pension system, in order to ensure pensions to future retirees.

- The funding promised to Moldova during the Brussels meeting with donors will increase the foreign debt very much. However, given the reasonable external governmental debt of Moldova (15.8 percent of GDP in late 2009), a higher debt would not be an excessive burden for state budget (the foreign debt service counts for only 1.7 percent of budgetary expenses).

## BASIC FEATURES

Political developments in 2009 came on background of the deepest global financial crisis ever seen in the after-war period which turned into economic recession in Moldova. This recession was featured by decline in production (by 6.5 percent), employment rate (by 5.3 percent) and remittances of emigrants (by 30 percent). The crisis hit the financial-bank sector, too, as quality indicators of credit portfolios of commercial banks reached dangerous levels. Finally, all economic involutions were reflected into low budgetary collections (by 20 percent less than planned in Q4 2009), threatening with a heavy long-term budgetary deficit (about 11 percent of GDP for 2009, if no budgetary changes were made).

Surprisingly, Q1 2010 brought better economic news than most optimistic expectations both for global and Moldovan economy. The domestic economy achieved a 4.7-percent rise, final household consumption recorded a modest growth (+2.7%), but enough to restart economic mechanisms and stabilise budgetary collections, remittances by emigrants have begun to rise (+5% in first five months), interest rates on credits dropped by 3 percent, compared with a year ago, and the share of disadvantageous credits is on the decline. The tax policy underwent important changes in 2010. They include a higher tax for territorial arrangement, location of commercial facilities, higher excises for fuels, beer, spirits, tobacco, jewels, and luxury cars. Therefore, public budget revenues increased compared with the last year. The rise was due to recovery of domestic demand (VAT increased by 15.5 percent in four months of 2010 compared with 2009) and higher excises for some products (fuels, tobacco, jewels etc.). The rise of budgetary revenues was deeper in the mid-2010. However, the monetary and tax policy should stay cautious, as fundamental problems which gave birth to the global crisis have not been removed yet, and external vulnerabilities of Moldova have not been attenuated so far. In particular, the European economy, and therefore the economy of Moldova, faces so far threats of a new crisis spiral, with the latter being connected to the first via exports, emigrants, investments and official development assistance.

Even more, although the new government assumed the ambitious goal to radically change the economic growth model of the country, statistics reveal that the economy is resuming the old growth model. Thus, revenues are consumed more, invested less, emigration substitutes internal employment, remittances play a key role in funding internal consumption, public sector is extending, and inflation becomes "normal". It means that the transition to the new model desired by Government, which is based on innovations, investments and competences will not be facile or rapid. The transit to the new model requires the continuation of a series of reforms, which do not promise much success: cardinal simplification of the business regulatory framework; effective functioning of market regulation agencies, first of all the National Agency for the Protection of Competition; effective reformation of the judiciary; economic transparency and efficiency in using public funds, inclusively by minimising the share of commodities, services and works purchased during transparent and fair public auctions; simplified access to natural resources, and effective punishment of those who use these resources inappropriately.

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## **6. SOCIAL REFORMS AND DEVELOPMENT**

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### ***Social dialogue on employment***

#### **Progress:**

- On December 1, 2009 the Government approved the national economic stabilisation and recovery programme of Moldova for 2009-2011. However, the programme stipulates less popular actions such as enhancing responsibility of employees and employers for minimising expenses for temporary work incapacity related to common illness or accidents unrelated to work by modifying the funding source and indemnity; diversifying ways of information and advising of population about labour force demand and supply, inclusively of emigrants who come back home after losing jobs abroad; modifying the unemployment indemnity providing mechanism by interesting job seekers to find jobs and employing them, with the purpose to efficiently use the available funds, inclusively by lowering the unemployment aid by 15 percent after three months of benefit and another 15 percent the next three months, as well as developing and maintaining the labour force software, inclusively in terms of labour force migration. On the other hand, these stipulations are opportune given the precarious financial condition of country.
- The national action plan on employment for 2010 was approved on March 23, 2010. It aims at concrete results, especially to increase new jobs, employment perspectives in rural areas and reduce regional discrepancies, improve information system and statistics on labour market, especially to improve business environment through institutional support of small and medium businesses.

#### **Shortcomings and problems:**

- Actions are necessary to enhance employment rate, as number of former emigrants is on the rise.
- Emigrational labour force inflows between Moldova and the EU shall be regulated, especially through bilateral agreements on migration.
- As well, less formal intra-ministerial coordination is required to work out national action plans aimed to enhance employment, as well as a better dialogue with employers. Otherwise, the new plan would have the same fate of other similar documents, which are welcome as political engagement but have a minimum impact on labour market.

### ***Gender equality***

#### **Progress:**

- On December 29, 2009 the Government approved the national programme on gender equality for 2010-2015, which is designed to help promoting gender equality in economic, political and social life of women and men in Moldova. The programme helps optimising and focus funds on sector policies in the light of gender dimension, having a positive impact on quality of life of citizens and respect for their fundamental rights.

#### **Shortcomings and problems:**

- Although an integrated national gender equality programme was approved, the shortage of human and financial resources obstructs it. Even more, progresses in the area are slowed down by effects of economic crisis on people's revenues, development and promotion of female entrepreneurship in country, and others. At the same time, the uprooting of traditions and cultural elements which encourage gender inequality is difficult with the support of national programmes, if they do not foresee a distinct role for education system and relevant nongovernmental organisations.

### ***Health and safety at workplace***

#### **Progress:**

- On November 26, 2009 the Parliament approved Law No. 72 on ratification of the International Labour Organisation Convention No.187 concerning the framework on promotion of health and security at workplace. The convention brings a new perspective which invites employers to cooperate more actively with Government and employees with the purpose to build a viable culture for safe conditions and health, in order to reduce accidents, injuries and diseases at workplace. The ratification of the Convention builds the necessary framework for continuously improving functions of institutions participating in labour security and health management, as well as necessary mechanism. The ratification impelled the elaboration and public discussion of the national programme on development of labour security and health and governmental programmes aimed to sustain companies which improve security and health at work.

#### **Shortcomings and problems:**

- The economic crisis hits efforts to line up to international standards in the area, as the implementation of Convention No. 187 requires both political willingness and financial resources, especially from businesses, with the purpose to ensure health and security at workplace. At the same time, the crisis made many businesses less responsible in terms of work conditions and remuneration of employees.

## ***Social protection and integration***

### **Progress:**

- The law on state social insurance budget entered into force on January 1, 2010, and foresees a deficit of 263,013.2 lei, though it stipulates indexations and rises of social payments, especially indexation of pensions, increase of single birth indemnities, etc.
- The law on modification and completion of the social assistance law No. 547-XV as of December 25, 2003 entered into force on March 29, 2010 to remove shortcomings of normative framework and consolidate the institutional framework needed to provide appropriate social assistance at various administrative levels, and encourage activity and supervise personnel in the system. Amendments and completions aim to improve the legal framework concerned.
- The social security agreement between Moldova and Portugal was ratified on May 7, 2010 to protect rights and social and economic interests of Moldovan nationals who temporarily work in Portugal and will come back home. The ratification and enforcement of this agreement will set up mechanisms needed to protect social-economic interests of Moldovan nationals, especially to ensure adequate pensions, given the two principles of the agreement, and namely proportionality and export of services.
- The law on modification and completion of Law No. 489 -XIV as of 08.07.1999 concerning public social insurance system and Law No. 156 -XIV as of 14.10.1998 concerning state social insurance pensions entered into force on May 19, 2010 to include the non-contribute period of people unemployed for reasons which do not depend of them into their length for retirement, as well as to cover expenses from state budget. Once enforced, these amendments are expected to combat discrimination of the categories concerned in terms of respect for the right to work and social protection.

### **Shortcomings and problems:**

- Social security agreements similar to those signed with Portugal shall be signed including with other countries which host Moldovan workers, especially Italy, France, Spain, Germany etc. At the same time, it is clear that fundamental demographic problems in these countries (ageing of population, low natural growth) and new financial restrictions will make these countries more reticent towards assuming new obligations towards Moldovan emigrants, including in terms of exports of paid services.
- The Government accepts the need of shortly extending community and specialised services, especially of improving efficiency of high-qualification social services. The difference between residential and community public services is very big and this disadvantages direct beneficiaries, particularly children facing the risk of abandonment.

## ***Public health***

### **Progress:**

- GD No. 568 on the acquisition of drugs and other medical products for healthcare system entered into force on September 10, 2009. The decision approved the regulation on procurement, which brings light to the way of organisation of public procurements in the area, in particular, to build a clear and fair mechanism of efficiently and optimally using available funds of the national healthcare system, given the very poor condition of public budget.
- Law No. 128 concerning mandatory health insurance funds for 2010 was approved on December 23, 2009. Through derogation from Healthcare Law No. 411-XIII as of March 28, 1995, expenses for pre-hospital emergency healthcare, primary healthcare, and ambulatory and hospital healthcare for uninsured people suffering from socially-conditioned diseases with a major impact on public healthcare will be covered from mandatory health insurance funds, in accordance with a list issued by Health Ministry, with the view of improving the condition of socially vulnerable people.
- The national economic stabilisation and recovery programme of Moldova for 2009-2011 stipulates concrete actions with an immediate impact on healthcare sector, inclusively aimed to enlarge the coverage of mandatory health insurance, extend obligation of paying mandatory health insurance contributions for all workers from Moldova; implement the retail price reduction mechanism for 5-10 essential medications used to treat main diseases among children and elderly, etc.
- Law No. 1585-XIII as of 27.02.1998 on completion of the law concerning mandatory health insurance entered into force on March 29, 2010 to set up a supplementary and stable funding source for investments into development and modernisation of public healthcare facilities, by building a development and modernisation fund from mandatory health insurance financial means. By implementing these regulations and building the necessary funding mechanism for modernisation of public healthcare facilities will enhance the quality of medical services for population and diversify them.

### **Shortcomings and problems:**

- Basic deficiencies in implementing planned actions are both shortage of public funds and current precarious economic condition.

## **BASIC FEATURES**

On December 1, 2009 the Government approved the national economic stabilisation and recovery programme of Moldova for 2009-2011. Preventing social exclusion and enhancing social assistance allocations to protect socially



vulnerable people in the context of an acute economic crisis are the key goals of the programme. However, the programme stipulates less popular actions such as enhancing responsibility of employees and employers for minimising expenses for temporary work incapacity related to common illness or accidents unrelated to work by modifying the funding source and indemnity; diversifying ways of information and advising of population about labour force demand and supply, inclusively of emigrants who come back home after losing jobs abroad; modifying the unemployment indemnity providing mechanism by interesting job seekers to find jobs, employing them and stimulating them to seek jobs, including by lowering the unemployment aid by 15 percent after three months of benefit and another 15 percent the next three months.

The national action plan on employment for 2010 was approved on March 23, 2010. It aims at concrete results, especially to increase new jobs, employment perspectives in rural areas and reduce regional discrepancies, improve information system and statistics on labour market, especially to improve business environment through institutional support for small and medium businesses. At the same time, two other priorities remain: 1) ensuring a horizontal consultation between various agencies and ministries; 2) developing a dialogue with business associations, so that investment plans and employment enhancing goals to be covered by national action plans on employment, too.

On December 29, 2009 the Government approved the national programme on gender equality for 2010-2015, which is designed to help promoting gender equality in economic, political and social life of women and men in Moldova. The programme will help optimising and focus funds on sector policies in the light of gender dimension, having a positive impact on quality of life of citizens and respect for their fundamental rights. At the same time, the shortage of funds will obstruct this plan. Even more, progresses in the area are slowed down by effects of economic crisis on people's revenues, development and promotion of female entrepreneurship in country, and others.

In conditions of financial crisis, health and security at workplace became again important issues on agenda of policies, as many businesses face financial difficulties and make savings by limiting security at workplace. In November 2009 Moldova ratified the International Labour Organisation Convention No.187 concerning the framework on promotion of health and security at workplace. The convention brings a new perspective which invites employers to cooperate more actively with Government and employees with the purpose to build a viable culture for safe conditions and health, in order to reduce accidents, injuries and diseases at work. However, the economic crisis obstructs bars efforts to line up to international standards in the area, as the implementation of Convention No. 187 requires both political willingness and funds, particularly at level of businesses, in order to improve health and security at workplace.

As for social security, a key accomplishment was the ratification of the social security agreement between Moldova and Portugal on May 10 to protect rights and social and economic interests of Moldovan nationals working in Portugal temporarily. The ratification and enforcement of this agreement will set up mechanisms needed to protect social-economic interests of Moldovan nations, especially to ensure adequate pensions, given the two principles of the agreement, and namely proportionality and export of services. Negotiations shall go on in order to sign similar agreements with other countries which host Moldovan workers, especially Italy, France, Spain, Germany etc. However, these countries face serious problems related to financial stability of national pension systems. That is why in the conditions imposed by financial crisis these countries could be more reticent with international clauses capable to weaken more the financial durability of their pension systems, with the export of services being part of such clauses. For this purpose, relevant ministries of Moldova shall prove uncommon coordination and diplomacy.

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## 7. FOREIGN TRADE

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### *Commercial relations (Trade regime with the EU)*

#### **Progress:**

- Although the first two quarters indicated a certain re-balancing of geography of Moldovan exports, the European Union is so far the No.1 trade partner of Moldova, covering 50.8 percent of overall Moldovan exports.
- According to data by the Ministry of Economy, businesses from Moldova used pretty dynamically the EU-granted preferences in January-May 2010. Wine quotas were covered 65 percent, corn 62 percent, barley 55 percent, wheat 48 percent.
- Negotiation of an eventual free trade agreement between the EU and Moldova could start in the second half of 2010, but evolutions on internal political scene could postpone the talks for post-electoral period. In this context, the Government should focus on training negotiators in terms of management skills, elaborate a coordinated position between ministries regarding transversal and sectoral aspects, communicate and coordinate positions with relevant nongovernmental players (business associations, trade unions etc.) inclusively with the view of attenuating possible negative sectoral effects.

#### **Shortcomings and problems**

- Some „*beyond borders*” barriers keep obstructing trade relations with the EU. The last World Bank report on trade logistics provides the Logistics Performance Index (LPI) which ranks 155 countries on six key dimensions. LPI ranks Moldova on the 104<sup>th</sup> place but some important dimensions such as customs, infrastructure and logistics competence ranks Moldova in the bottom: 124<sup>th</sup>, 123<sup>rd</sup> and 132<sup>nd</sup>. Of course, Moldova needs a competitive logistics competence in order to become competitive and join the European economy. The report forecasts a long path for Moldova.

### *Exports' promotion and development*

#### **Progress:**

- The increasing trend in foreign trade observed in late 2009 has consolidated in Q1 2010. Thus, exports increased by 24.3 percent in Q4 2009, compared with Q3 2009, and decreased by 0.6 percent in annual comparison. Data for Q1 2010 already indicated a 12-percent growth in annual comparison. These progresses are based on several factors: (a) better external conjuncture expressed through the relative recovery of demand in partner countries, confirmed as well by a 27-percent rise of overall trade inflows in Q1 2010; (b) the “static effect” of comparison with the basic period hit by crisis, in other terms the annual comparison was earlier made with months unaffected by crisis; (c) the serious depreciation of Moldovan leu on winter 2009-2010. At the same time, the value of exports in Q1 2010 was by 8 percent lower than two years ago.
- The evolution of imports is difficult so far. Thus, imports starting recovering just in March 2010 when they increased by 6.2 percent for the first time after the dive from January 2010 related to the world economic crisis. The recovery of imports is mainly sustained by strengthening of internal demand on background of larger remittances, as well as dearer energy resources imported by Moldova, which cover most energy needs of our country.
- The trend of re-balancing exports to the east observed in late 2009 was maintained in the Q1 2010. This trend is mostly sustained by ascension of the Russian Federation in the top of destinations of Moldovan exports. Truly, if in late 2009 the Russian market covered 22.3 percent of overall Moldovan exports, then its share increased up to 24 percent in the Q1 2010. On this background, the share of the “No. 1 rival” of the Romanian market dropped down to 15.7 percent, particularly due to the precarious condition of sugar-making industry. Given the fact that both markets are “representative” inside the “big” markets “CIS” and “EU”, the consolidation of the CIS market for Moldovan exports is not surprising.
- On the other hand, exports to the EU were hit in a more specific manner. Many Moldovan supplies to EU represent intra-industrial trade and „lohn” deals, which suffered more than agro-industrial exports, mainly oriented to CIS. At the same time, the economic recovery in the Euro zone is slower, and this fact keeps affecting the domestic demand in these countries. On the other hand, the economic recovery in CIS is much more robust and the wine trade with the Russian Federation enjoyed important efforts of the new governance to liberalise the market. The new governance took important measures to enhance competitiveness of Moldovan wine exports (eliminated the state trademark in February 2010) and liberalise wine exports in bulk and distilled wines. These actions are more important and welcome if one takes into account the worsening condition of the sector following multiple crises, with the global economic and financial crisis being the last one.
- Some documents aimed to harmonise the food legislation with European regulations were approved. Hence, the harmonisation plan for 2010 was adopted (most of actions are planned to be taken starting summer 2010). At the same time, general food hygienic norms adjusted to European legislation were approved in May 2010. These norms say the economic agents are most responsible for food security. As well, the food security is to be ensured on all food circuit, from primary production, and procedures based on HACCP (Hazard Analysis and Critical Control Point) principles are to be enforced concomitantly with good hygienic practices. This progress in making normative policies shall be completed by a practical progress, if meat producers from Moldova will enjoy a free access to European market.

#### **Shortcomings and problems:**

- Recovery of trade inflows will continue to significantly depend on the consolidation of global economic recovery which is critical for augmenting the external demand for Moldovan exports, as well as fuelling the domestic

demand via remittances from Moldovan emigrants who could benefit of economic recovery in host countries. The fiscal crisis in Greece and public debts will obstruct the takeoff of European economies, hitting Moldova's growth prospects, too.

- Demolition of internal barriers shall become a priority for the new governance. These barriers have an administrative and logistical nature both for enhancing exports and de-monopolising domestic market. Although the Government made efforts in this direction, exporters face barriers so far. They include among others the import-related restrictions, customs administration (indicative/approximate prices), orders by customs service concerning clearance process, etc.
- Importance of overcoming these barriers is confirmed by „*Doing business*” report, which indicates great progress in Moldova in terms of regulatory reforms but signals the lack of progress regarding „*Trading Across Borders*”, with Moldova being shortly surpassed by close neighbours.

## BASIC FEATURES

The European Union keeps being the No. 1 trade partner of Moldova, absorbing more than half of Moldovan exports. Moldovan exporters use pretty dynamically the EU-granted preferences. Wine quotas were covered 65 percent, corn 62 percent, barley 55 percent, wheat 48 percent in the first five months of this year. In geographical terms, Moldovan exports generally achieved a healthy diversification level, but some sectors are very dependent on Eastern market. Although Moldovan authorities took important measures to enhance competitiveness of Moldovan wine exports (eliminated the state trademark in February 2010) and liberalise wine exports in bulk and distilled wines, producers do not make enough efforts to diversify export markets and provide perfect quality to their products, and this fact makes the wine sector and other related branches very vulnerable in front of political decisions of Russian administration.

In December 2009 Moldova and the EU reconfirmed plans to build a deep and comprehensive free economic zone. However, negotiations could start in the second half of 2010, but evolutions on internal political scene could postpone the talks for post-electoral period. Economic simulations by Expert-Grup based on a general economic equilibrium model reveal that such a free trade zone could have dynamical effects on Moldovan economy in the sense that it would foster the rise of exports via direct foreign investments which would enhance production capacity and would enforce the quality standards. At the same time, some economic sectors and branches would suffer losses after trade opening, as they would fail in front of stronger competition. In this context, the Government should focus on training negotiators in terms of management skills, elaborate a coordinated position between ministries regarding transversal and sectoral aspects, communicate and coordinate positions with relevant nongovernmental players (business associations, trade unions etc.) inclusively with the view of cushioning eventual negative sectoral effects. The internal barriers keep obstructing trade relations with the EU. The last World Bank report on trade logistics ranks Moldova on the 104<sup>th</sup> place but some important dimensions such as customs, infrastructure and logistics competence ranks Moldova in the bottom: 124<sup>th</sup>, 123<sup>rd</sup> and 132<sup>nd</sup>.

In addition, the respect for European food quality and security standards is a raw spot which limits Moldovan exports to the EU. Important normative policies on harmonisation of food legislation with European norms were approved in the last nine months. Thus, the harmonisation plan for 2010 was adopted (most of actions are planned to be taken starting summer 2010). At the same time, general food hygienic norms adjusted to European legislation were approved in May 2010. These norms say that economic agents are the most responsible for food security. As well, the food security is to be ensured on all food circuit from primary production, by enforcing the procedures based on HACCP (Hazard Analysis and Critical Control Point) principles along with the good hygienic practices. This progress in making normative policies shall be completed by a practical progress, if Moldovan meat producers would like to enjoy a free access to European market.

Despite the enacted normative and legislative regulations, authorities shall allocate important human and financial resources for their effective implementation. Demolition of internal barriers shall become a priority for the new governance. These barriers have an administrative and logistical nature both for enhancing exports and de-monopolising domestic market. Although the Government made efforts in this direction, exporters face barriers so far. They include among others the import-related restrictions, customs administration (indicative/approximate prices), orders by customs service concerning clearance process etc.

## 8. BUSINESS CLIMATE

### Progress:

- A priority of the Moldovan Ministry of Economy after investiture of the new executive was to remove non-competitive arrangements on some segments of domestic market, this being a major cause of relatively expensive wide-consumption products. In this context, the Government decided to monitor commercial import transactions and price chain in domestic trade<sup>138</sup>. The purpose of this decision was to lower prices of commodities on domestic market by setting up a mechanism for examination and supervision of commercial import transactions with commodities covered by monitoring and value chain in domestic trade, regardless of the number of intermediaries. The initial measure was regarded as welcome, as it was expected to prevent eventual abuses by economic agents in terms of increasing prices of some products, especially those social sensible: foodstuffs and medications. At the same time, it is worth noting that the stipulation entrusting the Ministry of Finance to control the execution of this decision is inopportune. Or, the Ministry of Economy, which is the author of the draft decision<sup>139</sup>, should normally exercise this function, given its profile. At the same time, the practical impact of this decision is not noticeable so far.
- The Balti Free Economic Zone<sup>140</sup> was opened in the area of a key investor in Moldova, Draexlmaier Group, on May 26, 2010. The Free Economic Zone was created for a 25-year term for the purpose of enhancing investment attractiveness of the country, especially of the north area, increase Moldovan exports, develop infrastructure, open new jobs and foster industrial activity. In particular, the economic zone creates premises for extending activities of Draexlmaier Group and diversifying its production, a fact capable to stimulate the demand for local labour force. At the same time, the opening of this zone could attract new residents, and the cooperative attitude of public authorities with business environment is a positive signal for other investors.
- A basic document targeted at optimising entrepreneurship was drafted by Government on November 12, 2009. This is the action plan on removing administrative restrictions in business environment<sup>141</sup>, which aims to eliminate barriers to business, de-monopolise imports and exports, and implement modern reporting technologies. Although some of the actions included in this plan have been already implemented (reconsideration of kinds of licence-based operations, liberalisation of meat imports etc.), the Government is due to take actions aimed to improve the domestic business climate. Monopoly or oligopoly is still present on some segments of domestic market and issuance of licences and other entrepreneurship permits is still very bureaucratic and expensive in terms of money and time.
- In order to improve the legal framework regulating the process of building and functioning of industrial parks, the Ministry of Economy issued the draft law on industrial parks<sup>142</sup> that will replace the current law<sup>143</sup>. Therefore, the new law is expected to build a regulatory framework able to stimulate industrial parks and activity of their residents, providing the following main facilities: the right to privatise fields occupied by residents, exemption on expenses for changing destination of farm land with the view of building an industrial park, postponement of the value-added tax on materials and equipment imported for building the infrastructure and common utilities of industrial park before exploitation etc. This action and the one mentioned above (Free Economic Zone Balti) give a positive signal to domestic and foreign business environment, and could help optimising the investment activity in Moldova, if implemented efficiently.
- A possibility to attract local and foreign investments is building an advantageous framework for functioning of public-private partnerships. They are very welcome for Moldova, which has an imperative need of re-dimensioning the public sector. In this regard, the Ministry of Economy worked out a draft law on modification of some legislative documents aimed to institutionalise a new public-private partnership concept<sup>144</sup>. It comes to adjust a series of laws on public-private partnerships. A key proposal is to amend the law on concessions<sup>145</sup>, so that to build public-private partnerships via concession contracts. Very important is also the modification of the law on public property of administrative-territorial units<sup>146</sup>, which comes to allow private companies to get the property right when implementing projects within public-private partnerships. Other important amendments aimed to stimulate public-private partnerships are: the law concerning investments into entrepreneurial activity<sup>147</sup>, which comes to recognise and protect investments based on private-public partnerships; the law on public procurements<sup>148</sup>, which will allow some forms of public-private partnerships stipulated by legislation and impossible at present.
- The Agency for Payments and Intervention in Agriculture<sup>149</sup>, an administrative organ controlled by Ministry of Agriculture and Food Industry, was established on February 4, 2010. Basic tasks of this institution relate to management of funds allocated to sustain agricultural producers, selection of payment demands, monitoring and operation of the internal control system for allocated means. It is very important that once the agency was established, a single subsidy management institution will be functioning (Ministry of Finance, Ministry of Agriculture and Food Industry, IS „Moldresurse”, „Apele Moldovei” Agency were in charge with managing subsidies for agriculture until now), and these fund will be allocated under competition. Therefore, the management of subsidies for agriculture will be streamlined and a better targeting of beneficiaries will be found.

<sup>138</sup> GD No. 128 as of 22.02.2010.

<sup>139</sup> <http://mec.gov.md/node/1850>.

<sup>140</sup> Law No. 26 as of 04.03.2010 concerning the Free Economic Zone "Balti".

<sup>141</sup> Draft Government order approving the action plan aimed to remove administrative restrictions in business environment, Ministry of Economy of the Republic of Moldova.

<sup>142</sup> <http://mec.gov.md/node/1970>.

<sup>143</sup> Law No. 164 as of 13.07.2007 on industrial parks.

<sup>144</sup> <http://mec.gov.md/node/1909>.

<sup>145</sup> Law No. 534-XIII as of 13.07.1995 on concessions.

<sup>146</sup> Law No. 523-XIV as of 06.07.1999 concerning public property of administrative-territorial units.

<sup>147</sup> Law No. 81-XV as of 18.03.2004 concerning investments into entrepreneurial activity.

<sup>148</sup> Law No. 96-XVI as of 13.04.2007 on public procurements.

<sup>149</sup> GD No. 60 as of February 4, 2010.

### Shortcomings and problems:

- Although the new executive started working after its investiture on September 25, 2010, direct foreign investment inflows in Q4 2009 registered new minimum records. Thus, overall new investments into national economy amounted to USD 0.86 million in September-December 2009 (and 32.32 million dollars in Q3)<sup>150</sup>. Such a low foreign investment inflow was due to commitments worth USD 43.85 million – a historical maximum level since 2005 - the local companies ought to honour to foreign investors, as well as due to losses by investors. Thus, revenues reinvested by foreign companies amounted to USD 12.47 million, which is about three fold more than in Q3. These evolutions clearly indicate on economic restrictions that foreign investors kept facing in the last months of 2009, despite the political stabilisation, revealing that economic parameters are more relevant for their operation than political constants.
- However, a structural analysis of investment inflows reveals some possible influence of the new Government investiture. Although the rise of capital subscribed by foreign businesses was seasonal (the last years, except for 2008, subscriptions were increasing much in Q4), it was particularly due to investors from Romania. The latter increased their presence in Moldova after the visa requirements for Romanian citizens imposed by previous executive were lifted. Thus, overall social capital subscriptions in Q4 2009 amounted to USD 54.96 million, of which USD 19.6 million came from Romania (about four fold more than in Q4). German companies also contributed actively to enhancing social capital, adding USD 5.28 million. On the other hand, CIS investors had an insignificant contribution of USD1.96 million.
- The disinvestment phenomenon revealed by lower share capital of the foreign-capital companies has deepened. In particular, the balance amounted to USD 1,660.59 million in Q4 2009, increasing by USD 40.73 million, a value inferior to new subscribed share capital. Therefore, the share capital withdrawn by foreign businesses amounts to USD 14.23 million (about three fold more than in Q3 2009). Of course, this shows the low confidence of foreign investors in economic recovery prospects of Moldova, as well as the financial difficulties they face due to economic crisis.
- Domestic and foreign economic agents continued to face financial difficulties in Q4 2009 on background of low household consumption and poor recovery of foreign demand. This contributed to worsening of credit portfolios of commercial banks, generating important losses in banking system. Therefore, banks recorded reinvested revenue worth USD 12.14 million in the period concerned, while profitability of assets and capital was negative for the first time in the last years. In such conditions, commercial banks were reserved in crediting the real sector and interest rates on credits dropped insignificantly but kept being a major constraint on development of domestic business.
- Despite declared intentions of the Ministry of Economy to remove administrative barriers to business environment and de-monopolise economy, the draft law on modification and completion of Law No. 1347-XIII as of October 9, 1997 concerning production and household waste<sup>151</sup> was published on May 6, 2010. Therefore, Article 15<sup>1</sup> says that collection, storage, processing, trading and export of ferrous and non-ferrous metals scrap and waste, used batteries and accumulators including in processed condition shall be licensed under Law No. 451-XV as of July 30, 2001 which regulates the entrepreneurship through licensing. Thus, such an initiative means the introduction by Government of additional barriers to the entrance of new investors in this sector, a fact bringing all premises for monopoly or oligopoly.

## BASIC FEATURES

The change of Government in 2009 made the reform of regulatory business framework more imperative and facile. A basic document targeted this issue is the action plan for removing administrative restrictions in business environment. Adopted by Government in November 2009, the document is aimed to eliminate barriers to business, to de-monopolise imports and exports, and to implement modern reporting technologies. Although some of the actions foreseen by this plan have been already implemented (reconsideration of kinds of licence-based operations, liberalisation of meat imports etc.), the Government is due to take additional actions to improve the domestic business climate and refrain from populist measures which are tempting in a pre-electoral period.

On the other hand, monopoly or oligopoly is still present on some segments of domestic market, while the issuance of licences and other entrepreneurship permits is still very bureaucratic and expensive in terms of money and time. A priority of the Moldovan Ministry of Economy after investiture of the new executive was to remove non-competitive arrangements on some segments of domestic market, this being a major cause of relatively dear wide-consumption products. In this context, the Government decided to monitor commercial import transactions and price chain in domestic trade. However, there is not any noticeable effect of this decision so far. This situation proves one more time the emergence of reforming the National Agency for Protection of Competition.

With a purpose of improving the legal framework regulating the process of building and functioning of industrial parks, the Ministry of Economy issued the draft law on industrial parks, which will replace the current law. Therefore, the new law is expected to build a regulatory framework able to stimulate industrial parks and activity of their residents, providing the following main facilities: the right to privatise fields occupied by residents, exemption on expenses for changing destination of farm land with the view of building an industrial park, postponement of the value-added tax on materials and equipment imported for building the infrastructure and common utilities of industrial park before exploitation etc. At the same time, it is obvious that this law cannot substitute the lack of initiative and local experience in terms of establishing industrial parks, nor the lack of leadership from relevant governmental agencies.

<sup>150</sup> [http://www.bnm.md/md/balance\\_of\\_payments](http://www.bnm.md/md/balance_of_payments) .

<sup>151</sup> Ministry of Economy of the Republic of Moldova, <http://mec.gov.md/node/2041> .

Another priority field of the new Government was to develop a favourable legal framework for public-private partnerships. These models of implementing investment and public service projects are welcome in Moldova as the need of re-dimensioning the public sector is imperative. In this regard, the Ministry of Economy worked out a draft law on modification of some legislative documents aimed to institutionalise a new public-private partnership concept. It comes to adjust a series of laws on public-private partnerships. A key proposal is to amend the law on concessions, so that to build public-private partnerships via concession contracts. Very important is also the modification of the law on public property of administrative-territorial units, which comes to allow private companies to get the property right when implementing projects within public-private partnerships. Other important amendments aimed to stimulate public-private partnerships are: the law concerning investments into entrepreneurial activity, which comes to recognise and protect investments based on public-private partnerships; the law concerning public procurements that is expected to allow some forms of public-private partnerships stipulated by legislation but impossible at present. So far the problematical areas are: regulation of payment, book-keeping and fiscal reporting mechanisms within public-private partnerships.



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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 the Republic of Moldova and the European Union by opening new cooperation dimensions and opportunities to bring Moldova closer to the 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 EU-Moldova 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.