

# EUROMONITOR

QUARTERLY REPORT ON MONITORING THE IMPLEMENTATION OF THE  
EUROPEAN UNION-REPUBLIC OF MOLDOVA ACTION PLAN DURING THE  
PERIOD OF APRIL-JUNE 2013

**Authors:**

Igor Botan  
Nadejda Afanasieva  
Polina Panainte  
Adrian Lupusor  
Denis Cenusă

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Note: The authors produced this report in good faith and with good intentions. The authors are the only responsible persons for the opinions and conclusions expressed here, which are not necessarily shared by the Soros-Moldova Foundation, the Government of the Republic of Moldova, or other institutions mentioned in the report.

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## ■ Introduction

The quarterly report on monitoring the progress in the implementation of EUMAP between April and June 2013 has been produced as part of the joint project “EU-Moldova relations – monitoring progress within the framework of the Eastern Partnership in 2013” funded by the Soros-Moldova Foundation.

The **goal of the project** is to capitalize on the framework of debate that had been established within previous similar projects and to ensure high information and participation of the public in the debates related to the process of European integration. The project has adopted a new vision on monitoring the progress, based on more attractive and public-friendly monitoring and informing tools, on a deeper assessment of risks and opportunities, costs and benefits of integration in various sectors of economy and policy areas of priority, and on better targeted efforts of advocacy and public information.

The quarterly report EUROMONITOR is based on **28 areas** for which it shows the developments during the monitored period, assesses the impact of the action taken, and identifies major problems. The report is available on the websites of partner organizations, [www.e-democracy.md](http://www.e-democracy.md) and [www.expert-grup.org](http://www.expert-grup.org). Also, a separate website has been created, [www.euromonitor.md](http://www.euromonitor.md), which has been conceived as an instrument of intuitive and friendly visualization of the dynamics in the progress of Moldova’s European integration, by means of assessing the initial situation (2005), current situation (2012), and quarterly progress at the level of each action/reform in part, at the level of policies, and at global level. The presentation of the initial situation (as of 2005) and of the current situation (as of 2012) is made on the basis of the conclusions made for the evaluation report covering the progress achieved in the period of 2005-2012, and it is focused on areas included into the report. The quarterly progress for 2013 has also been assessed along the areas included into the report.

# ■ Democracy and Rule of Law

## JUSTICE SECTOR REFORM

### MAJOR QUARTERLY DEVELOPMENTS

- The Parliament adopted modifications to Law no. 317-XIII of 13.12.1994 on the Constitutional Court and to the Code of Constitutional Jurisdiction no. 502-XIII of 16.06.1996, setting the procedure for examining the application to suspend a challenged regulatory act.
- The Superior Council of Magistracy (SCM) developed and published the drafts of the following documents: Regulations on the Rules of Conduct for Litigants and Other Persons in Court; Framework Internal Regulations for Judges and Courts of Appeal; Guidelines of Prevention and Settlement of Conflicts of Interests in the Justice System.
- The EU has decided to offer Moldova EUR 90 million to implement the justice sector reform and bilateral agreements. In this regard, two documents were signed: the Agreement on Funding the Program of Budget Support in the Justice Sector and Support Program for the Implementation of Current and New Agreements between the European Union and Moldova, representing the second phase of the Comprehensive Program for Strengthening Institutional Capacities.

### IMPACT OF THE ACTION TAKEN

- The adoption of regulatory acts prescribed by the justice sector reform strategy and of regulations governing the operation of legal authorities is not seen in a good light by litigants. The positive effects of the above actions shall be felt once there is political will to properly execute them.
- The politicization of legal authorities constantly undermines political stability. The Constitutional Court Decision no. 4 of 22.04.2013 that declared unconstitutional the presidential decree of 10 April 2013 on appointing the candidate for Prime Minister has fueled distrust in the institution's independence from the political factor. An ad-hoc parliamentary majority qualified the Constitutional Court's decision as involvement into political settling of accounts.

### MAIN PROBLEMS IDENTIFIED

- The reform of the Prosecution Service has been very slow, and this situation is considered to be an obstacle for the general reform of the justice sector. Prosecutor General's Office reform according to the standards of the Council of Europe is still the top priority identified by the new management of the institution.
- To reform and ensure the independence and efficiency of justice one needs to focus efforts and prove a general political will and administrative capacities in several dimensions, such as apolitical and unbiased approach towards the justice sector reform process; combating and prevention of corruption in justice; development and implementation of norms concerning dismissal of civil servants from offices of special political interest according to the principles developed in the Constitutional Court Decision no. 4 of 22.04.2013; allocation of resources necessary for the implementation of the Strategy and ensuring their efficient use.

## COMBATING CORRUPTION

### MAJOR QUARTERLY DEVELOPMENTS

- The Parliament adopted Law no. 93 of 19.04.2013 on Modification of Law no. 1104-XV of 6 June 2002 on the National Anticorruption Center (NAC) to ensure the immovability of the NAC Director appointed as a result of a public contest.
- The Parliament adopted Law no. 106 of 03.05.2013 in order to amend Law no. 1104-XV of 6 June 2002 on the National Anticorruption Center. The modification aimed to redefine the status and role of the National Anticorruption Center in the system of public administration authorities, "in order to strengthen the independence of the specialized national anticorruption authority."
- The NAC developed Internal Regulations on Integrity Informants, which regulate the procedure of submission and verification of warnings about the illegalities committed within the NAC, as well as application of

protective measures to the persons that voluntarily provide information on illegalities, with good faith and for the public interest.

- The Parliament adopted Decision no. 114 of 23.05.2014 to establish a special standing committee to control the income and property statements of the president and members of the National Integrity Commission.

#### IMPACT OF THE ACTION TAKEN

- Adoption of regulatory acts prescribed by the justice sector reform strategy and of regulations governing the operation of legal authorities is not seen in a good light by litigants. The positive effects of the above actions shall be felt once there is political will to properly execute them.
- The priority of combating corruption has become a basic element in settling accounts between the currently governing groups. Constitutional Court Decision no. 4 of 22.04.2013 emphasized the phenomenon of using accusations of corruption for political purposes without giving clear solutions for combating corruption itself.

#### MAIN PROBLEMS IDENTIFIED

- The maintenance of political and group influences on public institutions and legal authorities favors the persistence of corruption, which is also stimulated by the perception of impunity generated by the vertical and horizontal political coverage.
- Parliament Decision no. 114 of 23.05.2014 that transforms the special parliamentary committee for control of the income and property statements of the president and members of the National Integrity Commission into a standing committee may be a threat to the independence of NIC members.

## ■ Human rights and fundamental freedoms

#### MAJOR QUARTERLY DEVELOPMENTS

The political crisis in early 2013 had a negative impact on reforms in Moldova, including in the field of human rights and freedoms. Development in the harmonization of the national legislative framework on human rights with the one of the EU has been slow, with 12 relevant regulatory and legislative acts concerning human rights being approved, modified, and supplemented within the reported period.

The main developments relate to the adjustment of the regulatory framework so as to eliminate discrimination and ensure equality, and they also include actions aimed at increasing the social inclusion of persons with disabilities and persons of Roma ethnicity. Also, over this period, a number of standards were approved to ensure the safety and health of workers.

Negative developments over this period refer to CEDO condemning Moldova in cases of torture and inhuman treatment; violation of the non-discrimination principle by supplementing the Contravention Code with sanctions for disseminating information that promotes relations other than those related to marriage and family; identification of cases of torture among minors in detention; and problems in ensuring press freedom and freedom of expression, especially in local and opposition mass media.

#### IMPACT OF THE ACTION TAKEN

- Between April and July 2013, Moldovan authorities undertook a number of actions aimed at ensuring observance of human rights. Key developments refer to the adjustment of the legal framework concerning persons with disabilities<sup>1</sup> and persons of Roma ethnicity<sup>2</sup> in order to enhance their social inclusion and address issues related to public transport and treatment for children with disorders of the musculoskeletal system.
- In order to prevent and combat human trafficking, the Government adopted Decision no. 363 of 12.06.2013 on Approval of the Agreement on the Cooperation of the CIS Member States in Combating Trafficking in Persons, Human Organs and Tissues, compiled in Moscow on 25 November 2005<sup>3</sup>.

<sup>1</sup> Government Decision no. 290 of 07.05.2013 on Approval of Modifications and Supplementations to Some Government Decisions to Execute Law no. 60 of 30 March 2012 on the Social Inclusion of Persons with Disabilities

<sup>2</sup> Law no. 69 of 05.04.2013 on supplementing Article 14 of Law no. 436-XVI of 28 December 2006 on Local Public Administration. This amendment completes the basic competences of local councils with the role of deciding on instituting the position of community mediator in communities densely or mixtly populated by Roma.

<sup>3</sup> Government Decisions 363/12.06.2013: Decision on Approval of the Agreement on the Cooperation of the CIS Member States in Combating Trafficking in Persons, Human Organs and Tissues, compiled in Moscow on 25 November 2005 // *Official Monitor 125-129/414, 14.06.2013*

- Other positive developments are related to adoption of Parliament Decision no. 131 of 06/06/2013 on Appointment of Member of the Council for Preventing and Eliminating Discrimination and Ensuring Equality<sup>4</sup> and Approval of Minimum Standards for the Protection of Workers Exposed to Asbestos<sup>5</sup> and Chemical Agents at Work<sup>6</sup>.
- Intensified monitoring of how legislation is executed in cases involving the participation of minors helped identify the inefficiency of the existing anti-torture mechanisms and introduce the issue of ensuring adequate juvenile justice into the public agenda.
- To establish mechanisms for guaranteeing the freedom of expression and sanctioning civil servants for intimidation and censorship of mass media, two new articles were introduced into the Criminal Code<sup>7</sup>, prescribing sanctions for illegal intentional prevention of mass media activity and intimidation of persons for criticism and censorship (such as civil servants' interference into the editorial activity of mass media). Such offences were included into the category of minor offences.
- The main event in support of civil society development and consolidation of the dialogue between authorities and civil society was the 7<sup>th</sup> Forum of Moldovan NGOs on 13-14 June 2013. At the event, the representatives of civil society, the Parliament and the Government discussed about improving the legal framework concerning NGOs, NGO representation in the dialogue with public institutions, regional development, NGO code of ethics, public procurement of social services provided by NGOs, etc.

## MAIN PROBLEMS IDENTIFIED

- Persistence of discriminatory treatment, torture, and detention in inhuman conditions, despite some improvement of conditions at the temporary detention facilities of police stations;
- Lack of reaction from Members of Parliament following the presentation of the CHR Report for 2012, *Observance of Human Rights in Moldova – Conclusions and Recommendations of the National Institution of Ombudsman*;
- Condemnation of Moldova by the European Court for Human Rights on 09 April 2013<sup>8</sup> and 28 May 2013<sup>9</sup> in cases of torture and inhumane and degrading treatment;
- Failure to draft the law on ratification of the Council of Europe Convention on Child Adoption due to lack of financial resources for production of a feasibility study on the appropriateness of ratifying the Convention;
- Difficulties in enhancing the efficiency of the justice system for minors and existence of difficulties in the development of community services for prevention of juvenile delinquency;
- Adoption on 23 May of Law no. 117 for supplementation of the Contravention Code of Moldova no. 218-XVI of 24 October 2008<sup>10</sup> that supplements the Contravention Code with Article 90<sup>1</sup>, which provides for sanctioning the dissemination of information that promotes "... and other relations than those related to marriage and family according to the Constitution and the Family Code." This supplementation was not subjected to public debates and was approved in violation of decision making transparency and also of the constitutional principle of non-discrimination and international instruments that Moldova is part of;
- The impact of the law on the freedom of expression is still small due to the lack of information about its existence among judges and journalists<sup>11</sup>. Also, the adoption of legislation regulating mass media ownership transparency, the advertising market and mass media market demonopolization kept being delayed.
- A negative development in the freedom of expression has been the final decision of the Supreme Court of Justice to maintain in force the previous decision of the Chisinau Court of Appeal in favor of the Broadcasting

<sup>4</sup> Parliament Decisions 131/06.06.2013: Decision on Appointing Members of the Council for Preventing and Eliminating Discrimination and Ensuring Equality // *Official Monitor* 125-129/406, 14.06.2013

<sup>5</sup> Government Decisions 244/08.04.2013: Decision on Approval of Minimum Standards for the Protection of Workers Exposed to Asbestos and Chemical Agents at Work // *Official Monitor* 75-81/298, 12.04.2013

<sup>6</sup> Government Decisions 324/30.05.2013: Decision on Approval of the Sanitary Regulations of Health and Safety Requirements for Ensuring Protection of Workers from the Risks Related to Presence of Chemical Agents at Work // *Official Monitor* 125-129/404, 14.06.2013

<sup>7</sup> Law no. 40 of 21.03.2013 on Supplementation of the Criminal Code of Moldova no. 985-XV of 18 April 2002

<sup>8</sup> <http://lhr.md/news/363.html>

<sup>9</sup> <http://www.justice.gov.md/libview.php?l=ro&idc=6&id=1442>

<sup>10</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=348682>

<sup>11</sup> Conclusions from the study *Impact of the Law on the Freedom of Expression*, produced by the Independent Journalism Center, <http://bit.ly/Xn52Ue>.

Coordinating Council, which had withdrawn the broadcasting license of the *NIT* television, accused of failing to ensure pluralism of opinions.

## ■ Transnistrian conflict settlement

### MAJOR QUARTERLY DEVELOPMENTS

- The situation in the Security Zone has deteriorated significantly, threatening to degenerate into a confrontation with destabilizing consequences for the region. In April and May 2013 several clashes between the representatives of the Moldovan and Transnistrian law enforcement took place around Bender city and the neighboring communities.
- No progress could be achieved at the “5+2” negotiations round held in Odessa on 23 and 24 May 2013. Discussions concerned several issues: social and economic; free movement of citizens through the prism of the Chisinau initiative to install migration points; air and river transport; and removal of the damaged funicular connecting the two towns on the opposite banks of the Nistru – Rezina and Ribnita.
- On 21 June 2013 the Moldovan Parliament adopted a declaration on the situation in Transnistria. Moldovan authorities confirmed their readiness to identify constructive solutions, including through multidimensional dialogue with the representatives of Transnistria aimed at jointly identifying and implementing solutions that could contribute to stabilizing the situation and to ensuring free movement of persons and goods on both banks of the Nistru.

### IMPACT OF THE ACTION TAKEN

- The 11th annual OSCE Conference of evaluation in the field of security, held on 19 and 20 June in Vienna, found the main reason for the lack of progress in Transnistrian settlement: unilateral actions of the Tiraspol administration, contrary to the logic of conflict settlement; lack of interest of the Tiraspol administration to negotiate substantial political issues for the final settlement of the conflict on the basis of sovereignty and territorial integrity of Moldova and by offering a special status to Transnistria in the composition of the reintegrated state.
- The incidents in the Security Zone resulted in a reduction of mutual trust of the parties in conflict, undermining the very approach to Transnistrian settlement along the progress of “confidence building measures.”

### MAIN PROBLEMS IDENTIFIED

- The lack of progress in negotiations is caused by the fact that the parties are promoting different integration projects. In this sense, the deterioration of the situation in the Security Zone is based in the demonstration of divergent integration options. Thus, Transnistria exhibited its claims to negotiate problems related to the Free Trade Area with the EU separately from Moldova, arguing that it had not been admitted to negotiations, which is not true, since it was Transnistria that limited its participation by delegating observers to negotiations.
- The mediators of Transnistrian settlement showed different attitudes to the intentions of Moldova to install migration points. While the representatives of Russia expressed their concern about the rights of “fellow nationals” in Transnistria, asking to be informed in detail about the measures that are to be taken by Moldovan authorities for the installation and operation of the migration control points, the special representative of the OSCE, presided by Ukraine, Andrei Descita, was understanding about the actions of Moldovan authorities, declaring after the closure of the Odessa meeting that the Moldovan side only intends to establish migration points, which will be placed outside the Security Zone, on the territory of Moldova.

## ■ Improving welfare

### MAJOR QUARTERLY DEVELOPMENTS

The major quarterly developments include the modification and supplementation of relevant legislation in order to provide monthly financial state support to beneficiaries of pensions that do not exceed MDL 1,300, including after the indexation of 1 April 2013. At the same time, we should mention the approval on 30 April this year of the minimum salary for real economy employees, the Regulations for Calculating the Subsistence Minimum and Increasing the Amount of Compensation for Transport Services for Persons with Musculoskeletal System Disabilities. Thus, beginning on 1 May 2013, the guaranteed minimum salary in the real economy will not be less than MDL 1,400. At the same time, an MDL 100 increase of the annual compensation for transport services for persons with musculoskeletal system disabilities was also approved. Thus, it will grow from MDL 500 to MDL 600 per year. It should be mentioned that in the middle of August, the Framework Regulations of Organization and Operation of the Joint Information and Social Services Bureau was approved. So, at the level of authorities, joint information bureaus will be established, which will provide consultation and information to the local population in the field of social protection, job search and business development, agriculture, land property, various legal and financial services. The basic concept is the principle of “one stop shop” information desk.

#### **IMPACT OF THE ACTION TAKEN**

- The monthly financial state support provided to the beneficiaries of pensions that do not exceed MDL 1,300 is intended to support these categories of the population and to contribute to increasing their income. It should be mentioned that Moldova has 649,909 registered beneficiaries of pensions of all kinds, of which 484,545 receive retirement pensions the average of which is MDL 1053.64 since 1 April 2013.
- The increase of the annual compensation for transport services for persons with disabilities of the musculoskeletal system will support about 9,000 such persons. Also, children under 18 affected by this type of disabilities will benefit from free services provided by the Republican Experimental Center of Prosthesis, Orthopedics and Rehabilitation in Chisinau.
- On the occasion of the International Children’s Day, a number of socially vulnerable families with children received material aids, for which MDL 6.5 million were provided from the state budget through local social support funds. Such aids were especially intended for children from family-type orphanages and from the service of professional parental assistance. It should be mentioned that overall MDL 0.5 million more were used if compared with the program realized the previous year, which provided help to about 20 thousand disadvantaged families with children. At the same time, in the period of 30 May – 2 June, the third Specialized International Exhibition of Goods and Services for Children and Teens “KIDS’ EXPO” took place, and the Ministry of Labor, Social Protection and Family was the partner of the International Exhibition Center “Moldexpo” in conducting this event. The exhibition included seminars, presentations of new products, trainings and consultancy, contests, quizzes, entertainment shows, the festival of sweets, concerts with the participation of children’s artistic groups and clowns, charity events, etc.

#### **MAIN PROBLEMS IDENTIFIED**

- Although efforts have been made to improve the population’s welfare, their effects are still expected and are little felt by the majority of the population. Thus, the population’s income remains unsatisfactory, most people being unsatisfied with the purchasing power, while the monthly consumption of households exceeds the income from salaries. Consumption is still mainly supported by remittances from abroad, which have slightly increased recently.
- Corruption is still high. According to the Corruption Perception Index for 2013, Moldova ranks 94, showing a slight improvement compared to previous years. However, the situation seems more difficult, since corruption proved to be a general endemic phenomenon that has paralyzed the functionality of most public institutions.
- The gap between the living standards and welfare in urban and rural areas is still growing. Rural areas have greater problems related to ensuring a decent standard of living, access to utilities and services, including availability of jobs with decent salaries that would cover the necessary monthly expenses. In rural areas the population is more dependent on transfers from abroad (21.0% of total income, compared to 13.0% for urban population).



- The establishment of joint information bureaus under regional public authorities is a welcome initiative that would facilitate both access to information and exchange of data and information. However, the main problem in this regard is the relatively small numbers of population and civil servants using IT tools in their professional activity, including limited knowledge and skills in this regard.

## ■ Macroeconomic and macrofinancial policies

### MAJOR QUARTERLY DEVELOPMENTS

During the second quarter, the Government continued its efforts aimed at strengthening macroeconomic stability, which has lately been affected by the difficult economic situation in the region, unfavorable weather conditions of the previous year, and the political blocking at the start of this year. In this regard, after the political situation settled, there have been signs indicating the opportunity of signing a new memorandum with the International Monetary Fund, which is apparently a major priority on the governmental agenda. Another important priority concerns the efficient use of public money. Thus, the Strategy for the Development of Public Finance Management for 2013-2020 was approved, which is intended to ensure efficient allocation of public money on activities contributing to the growth of economy and development of Moldova. Also, the Medium-Term Budget Framework (2014-2016) is being developed, aimed at ensuring a broad dialogue about the medium-term priorities in the use of public money.

### IMPACT OF THE ACTION TAKEN

- The conclusion of a new memorandum with the IMF could strengthen the trust of the international community towards the Chisinau Government, which would facilitate the continued allocation of foreign grants and would serve as a support for further system reforms that have already been started or that are to be initiated in the nearest future.
- The successfully implemented Strategy for the Development of Public Finance Management for 2013-2020 could contribute to ensuring more efficient management in the use of funds in all fields and sectors of the public administration. According to an analytical note of the Ministry of Finance, the Strategy “will serve as a landmark in the process of collaboration and cooperation with external development partners in order to speed ongoing reforms, align to the international standards of financial management and establish strategic partnerships.”

### MAIN PROBLEMS IDENTIFIED

- The conclusion of a new memorandum with the IMF involves a series of conditions that could be uncomfortable for the Moldovan Government, especially in the context of an approaching pre-elections year. The main conditions that the IMF could insist on might refer to increasing transparency and efficiency of supervision in the finances and banking sector; strengthening fiscal equity, especially in agriculture; increasing the efficiency of the social security system; boosting the justice sector reform; and a number of budget improvements to reduce the budget deficit to 1% of the GDP. In the above-mentioned areas Moldova has had several drawbacks, which prevented the last disbursement under the previous memorandum in the first quarter of this year. Therefore, negotiations with the IMF will not be easy, considering the disagreements with the Government in some sensitive issues (e.g.: single tax in agriculture, return to the 8% VAT, or pension increases for some civil servants).
- Although the Middle-Term Budget Framework (2014-2016) is being developed, its publication has been delayed. Thus, according to the budget calendar, the document had to be finalized and placed on the Ministry of Finance website already in April. The reason of the delay is most probably related to the political blocking at the beginning of this year, which affected the activity of public institutions, too. Up to this moment, only the meeting of the Coordinating Group and the meeting of sector groups for the development of the MTBF took place, both in June.
- The Strategy for the Development of Public Finance Management for 2013-2020 is an ambitious document that could significantly contribute to increasing the efficiency in the administration of public property.

However, it was adopted in the context when over half of the Court of Accounts recommendations concerning removal of various irregularities in the use of public money have not been observed. Moreover, the Ministry of Finance and other institutions that the Strategy refers to are facing acute constraints in terms of human resources, which could undermine its implementation.

## ■ Functional market economy

### MAJOR QUARTERLY DEVELOPMENTS

The policies concerning the establishment of a functional market economy were delayed in the second quarter due to the political blocking in that period. For example, the work of the Competition Council, established in July 2012 following the entry into force of the new Law on Competition, was practically blocked because the Parliament failed to appoint the governing bodies. However, in the middle of July, the Parliament appointed persons for the Council's senior positions, which means that the institution can begin working. Another aspect related to ensuring a functional system of market economy is the draft roadmap for improving competition in Moldova, presented by the Ministry of Economy. The document addressed the problems that the Ministry considers to be of major importance for improving competition, especially considering the opportunities and challenges opened by the DCFTA.

### IMPACT OF THE ACTION TAKEN

- The selection of the governing bodies for the Competition Council will unblock its activity. As a result, in the future we can expect new investigations to be launched in various sectors that have an imperfect competition framework. However, the long time that was necessary to ensure the functionality of the Council could be a negative signal concerning the credibility and political independence of this institution, which could, in its turn, undermine the efficiency of the measures already taken.
- The implementation of the roadmap is to be followed by establishment of a body for monitoring the results of the efforts aimed at improving competition and contributing to sustainability, which would include in its composition the responsible employees of governmental institutions and representatives of business associations. Overall, the implementation of the action plan stipulated in the document will allow Moldova to fully benefit from the entry into force of the Deep and Comprehensive Free Trade Agreement with the EU. At the same time, improved competitiveness will also ensure a reduction of economic and social costs related to the process of the country's European integration.

### MAIN PROBLEMS IDENTIFIED

- Such a long delay in appointing the institution's governing bodies was also caused by the political blocking at the beginning of this year, and it undermined the policies on improving the competition framework and the market economy mechanisms as a whole. However, the incapacity of the governing alliance to reach a compromise on this problem even before the political crisis reveals the persistence of certain groups of interest in this area, which is certainly not beneficial for further efficient work of the Competition Council.
- Although the actions stipulated in the roadmap to improve competitiveness in Moldova are welcome, and overall they shall ensure a more inclusive development of the country, the roadmap does not stipulate the necessary financial resources or the sources for covering expenses. It might undermine the implementation of the action plan. At the same time, the document does not include any mechanisms for measuring the performance of the Competition Council. In addition, the notion of competitiveness is not defined well enough, and the need in systemic reforms is not clearly stated in the document.

## ■ Rural and regional development

### MAJOR QUARTERLY DEVELOPMENTS

One of the key developments in this area has been the approval in the second half of August 2013 of the Regional Development Strategy for 2013-2015, which is focused on the strategic planning of the regional development policy. The document outlines the perspectives of regional development in Moldova and defines the instruments and mechanisms for the realization of strategic objectives. The Strategy puts a special emphasis on encouraging regional and local actors to concentrate on creating conditions for economic development in various sectors and on using the existing potential while avoiding excessive dispersal of financial, human, and administrative resources. On 5 June 2013, the Middle-Term Program of Local Urban Planning for 2013-2016 was approved. The goal of the Program is to stimulate the sustainable development of the country's towns and villages by providing them with urban planning documents and by making constructions on the basis of a plan and a strategy, with the main objectives focused on ensuring functionality, territory development, and identification of the necessary financial means for the production of urban planning documents by taking into consideration new social and economic conditions. Also, on 12 July 2013, authorities ratified the Financing Agreement with the European Bank for Reconstruction and Development (EBRD), which provides for EUR 150 million to be offered for the rehabilitation of the main roads in Moldova. The loan will be delivered in three installments, depending on the progress.

### IMPACT OF THE ACTION TAKEN

- About MDL 34 million of the total MDL 191 million out of the National Regional Development Fund has been used in the first 5 months of this year on implementation of regional development projects. Since the beginning of the year, 22 regional development projects have been in the course of implementation; they concern the rehabilitation of the road infrastructure, water supply and sanitation, improvement of the environment, and touristic attractiveness. Most of them are in the process of procurement or tendering. Of the total number of projects, 7 are being implemented in the North Regional Development Region, 10 – in the Center Development Region, and 5 – in the South Development Region.
- The Middle-Term Program of Local Urban Planning is aimed at stimulating sustainable development in the country's towns and villages, and its main objectives consist in ensuring functionality, territory development, and identification of the necessary financial means for the production of urban planning documents by taking into consideration new social and economic conditions. It should be mentioned that only 1% of rural and 33% of urban settlements already have urban planning documentation or are having it developed.
- The receipt of foreign funding for road rehabilitation will have a positive impact on the progress in ensuring national roads of high quality, which will also contribute to enhancing the country's economy. It should be mentioned that so far the EBRD has signed 100 investment projects in Moldova, for a total amount of EUR 897 million, covering the sectors of energy, transport, agriculture, industry, and banking.

### MAIN PROBLEMS IDENTIFIED

- The main challenges refer to the existence of disparities in the development of Moldovan regions. These differences are caused by various factors: differences in the economic and social development; lack of an integrated and participatory planning; insufficient institutional capacities; limited financial resources at the local and central level; limited experience in the implementation of regional programs and inter-community partnerships.
- It is absolutely necessary to correctly and qualitatively use external financial sources, so as to contribute to the development of regional infrastructure and implicitly to the revival of the national economy. In this sense, it is imperative to ensure high quality of the planned works and to monitor the implementation and correct use of financial sources, as there were numerous deficiencies in this regard previously, especially in the rehabilitation of national roads, which led *de facto* to much higher costs in terms of quantity and quality.

## ■ Social and employment policy

### MAJOR QUARTERLY DEVELOPMENTS

During the second quarter, efforts were made in this area, and the resulting key developments include the ratification of the Agreement between the Government of the Republic of Moldova and the Government of Israel on Temporary Employment of Workers from Moldova in Some Sectors in Israel. The institutions responsible for implementation are as follows: in Moldova – the National Employment Agency, and in Israel – International Center “La Strada,” contracted by the Israeli Ministry of Interior’s Population, Immigration and Border Authority (PIBA). Also, in the period of 23-25 April 2013, the 3<sup>rd</sup> round of consultations took place concerning the draft agreement between the Republic of Moldova and the Republic of Lithuania in the field of social protection and the administrative arrangement for its application. During negotiations, the delegations finalized the draft agreement and the draft administrative arrangement.

### IMPACT OF THE ACTION TAKEN

- The ratification of the Agreement between the Government of the Republic of Moldova and the Government of Israel on Temporary Employment of Workers from Moldova in Some Sectors in Israel, especially in constructions, will enable legalizing our fellow nationals’ work in this country and, accordingly, ensuring that they benefit from relevant rights. It should be mentioned that the Government of Israel requested cooperation in the recruitment of 1,000 qualified temporary workers in constructions to work in Israel.
- The agreement signed by Moldova and Lithuania in the field of social protection and the administrative arrangement for its application will enable providing retirement pensions, survivors’ pensions, disability pensions, pensions and allowances for disabilities caused by accidents at work or by occupational diseases to all those who worked legally in this country and paid the necessary fees. If a person worked in both countries, the right to pension shall be established by taking into consideration the fee-payment periods in both countries. At the same time, each country will pay the part of pension calculated for the period of work on its territory, and the amount will be exported to the person on the territory of his/her country of residence.

### MAIN PROBLEMS IDENTIFIED

- The growth of unemployment during the analyzed period shows a series of deficiencies in the process of employment and use of the work force in economy (how well it is used in terms of competences, experience, and availability for work). It means a growth in the number of employees with a level of qualification that is higher than their job requirements and the number of part-time employees who would prefer working full time. It all leads to the emergence of strong factors stimulating the migration of highly qualified workers and thus facilitating the export of intelligence. This phenomenon is especially acute in rural areas, where the rate of unemployment is the highest. In this sense, although the Decent Work Country Program (DWCP) for the period of 2012-2015, along with the programs *Moldova 2020* and *Relaunching Moldova* and other important documents, is in place, its results are still to be expected, and there are no evident short-term changes.

## ■ Commercial relations

### MAJOR QUARTERLY DEVELOPMENTS

After six rounds of discussions, the negotiations on the Deep and Comprehensive Free Trade Area (DCFTA) Agreement ended. The closure of negotiations is a sign of positive development in the relations between Moldova and the EU. However, the main constraint in the process of establishment of the DCFTA is the lack of Transnistria’s participation. Otherwise, special attention has been given to sensitive agricultural products and services in the context of the DCFTA. During the Moldova-EU discussions in May, there was launched the proposal of gradual liberalization, of up to 10 years, in trade involving some categories of Moldovan agricultural products (fresh fruit and vegetables, canned products, juices, some dairy products, etc.), to increase the competitiveness of Moldovan goods. The Moldovan side suggested establishing some tariff quotas for a range of European products (meat and meat products, sugar, some dairy products,

etc.) in order to protect domestic manufacturers. It involves establishment of annual quotas for the export of about 10 Moldovan agricultural products (sugar, cereals, dairy, eggs, etc.), with the elimination of customs duties. The possible export volume could be adjusted annually according to the demands of Moldovan businesses. Also, both sides agreed on full liberalization of trade in wine products. Another area discussed relates to the liberalization of services in the context of the DCFTA, which will inevitably lead to improved quality of the services currently provided by Moldovan businesses.

#### **IMPACT OF THE ACTION TAKEN**

- Once entered into force, the agreement will provide Moldovan manufacturers with free access to the European market by eliminating tariff barriers; speeding trade due to harmonization of technical and sanitary standards; establishing a more secure environment for investment; advancing policies in the area of competition and protection of intellectual property; etc. However, these advantages will not be felt in Transnistria. It could be prevented only by attracting Transnistrian businesses, which then shall convince the region's authorities on the economic opportunities of the DCFTA. Significant results can be obtained from mediation by the EU and EUBAM (which is financially supported up to nearly the end of 2015).
- The gradual liberalization of trade involving some categories of Moldovan agricultural products (fresh fruits and vegetables, canned products, juices, some dairy products, etc.) might provide a "time advantage" to increase the competitiveness of Moldovan products. As for wine products, it has been agreed to liberalize this sector, which will provide domestic wine manufacturers with unlimited access to the European market. Also, Moldova-EU discussions focused on the liberalization of services, which should lead to an increase in the quality of services provided in Moldova and to the development of new categories of services.

#### **MAIN PROBLEMS IDENTIFIED**

- The problem of non-applicability of DCFTA provisions in Transnistria could generate some difficulties for the realization of the DCFTA on the entire territory of Moldova. Ultimately, the DCFTA entry into force bears imminent risks for Transnistrian economy. It might also have collateral effects on the process of Transnistrian settlement.
- Although contrary to the laws of free competition and the comparative advantages in manufacturing, Moldovan authorities request application of some tariff quotas for a range of European products (meat and meat products, sugar, some dairy products, etc.) as a means for protecting domestic manufacturers. In fact, Moldova must make efforts to increase the quality of the above-mentioned products and to comply with the phytosanitary standards required by the EU. Any attempt to protect these sectors from competition with European products will delay the quality adjustment of domestic products. Eventually, it might lead to disputes with European partners and to failure to use the economic potential offered by the EU market.

## **■ The Customs Service**

#### **MAJOR QUARTERLY DEVELOPMENTS**

Over the first 6 months of 2013, the Customs Service produced significant revenue to the state budget, which reached MDL 6,474 million. This amount is practically double compared to the similar period of 2009, when the revenue was MDL 3,406 million. The factors contributing to this growth include the maximization of the Custom Service's control capacity by applying risk analysis, methods of customs verification of the value of imported goods, and other optimization measures. The increase of revenue coincided with the entry into force in January 2013 of the new Regulations on Simplified Customs Procedures. The Customs Service introduced new simplifications of customs procedures, which will lead to facilitation of import and export. The Border Police received a set of special equipment for supervision and control of the state border, which was provided as part of the project *Weapons of Mass Destruction Proliferation Prevention Program* (WMD PPP), financially supported by the USA. The 20<sup>th</sup> Advisory Board Meeting (ABM) of EUBAM took place, chaired by the Head of the EU Delegation to Ukraine, Mr. Jan Tombinski. The meeting was attended by the representatives of the customs services of Moldova and Ukraine, OSCE, UNDP, and IOM. At the ABM,

the annual report of the Mission for the period of December 2011 – November 2012 was presented. The document includes the evaluation of the 10<sup>th</sup> Joint Border Control Operation “Podolia.” Also, it covers the recent developments in the process of the Moldova-Ukraine border demarcation and technical information about the EUBAM action plan for the following period.

#### **IMPACT OF THE ACTION TAKEN**

- The simplification of the customs procedures includes: (i) essential simplification of the export procedures by creating the possibility of performing customs clearance at any customs point; (ii) elimination of the obligation to present goods and fill in customs declarations at the internal customs point; (iii) annulment of the transit customs declaration; (iv) elimination of the requirement to confirm the weight of vehicle and to present the import rights guarantee; (v) possibility to verify goods before submitting the customs declaration. Modifications also refer to the working hours of customs posts. Thus, at least 11 customs posts in the country will work 12 hours per day (between 8.00 and 20.00) during the entire week, including weekends.
- The special equipment will enhance the technical and operational capacity of the Border Police. The set includes 80 vehicles 4x4 Dacia Duster, 30 vehicles Opel Vivaro, 105 ATVs Brp Outlander 400 Max, and 840 sets of special equipment. This acquisition is a substantial investment for improved border control and efficiency in combating border crimes.
- The EUBAM mission has been extended three times. The current mandate has been extended to 30 November 2015. So far, the partnership with EUBAM contributed to: (i) consolidation of capacities to manage Moldova-Ukraine borders, especially in the Transnistrian segment; (ii) simplification of customs procedures; (iii) adoption of European practices in the management of state borders.

#### **MAIN PROBLEMS IDENTIFIED**

- The EUBAM largely depends on the political factors within the EU and member states, which decide on extending the mandate. However, Moldovan authorities are to continue requesting the maintenance of the mission. The role of the EUBAM might become better outlined in the period before and after signing the Association Agreement, which includes the establishment of the DCFTA, considering modest development in Transnistrian conflict settlement.

## **■ Standards, technical regulations, and conformity assessment procedures (harmonized areas)**

#### **MAJOR QUARTERLY DEVELOPMENTS**

During the second quarter, the Ministry of Economy (MoE) finalized the draft Government Decision on Development of the Methodology for the Calculation of Future Standardization and Metrology Tariffs. This document is part of the process of reforming the quality infrastructure and is to add to the measures aimed at reducing the standardization and metrology costs for businesses. The reformation of the quality infrastructure will make Moldovan products more competitive. The evaluators delegated by the European co-operation for Accreditation (EA) performed simulated parity evaluation of the Accreditation Center MOLDAC. These measures are part of the TWINING project on “Strengthening the Capacities of the Conformity Evaluation Bodies Accreditation Center.”

#### **IMPACT OF THE ACTION TAKEN**

- The future methodology for the calculation of standardization and metrology tariffs is among the measures taken by authorities to enhance the quality infrastructure efficiency. As a result, the methodology will set clear criteria for the formation of tariffs, which will most probably support the efforts of reducing expenses on the services of standardization and metrology. So far, the list of paid services provided to businesses has been reviewed and a reasonable price for the available services has been established. Also, some services are expected to be provided free of charge.

- The simulated evaluation performed by the representatives of the European co-operation for Accreditation (EA) was necessary in order to determine the level of MOLDAC readiness in the process of signing the Agreement on Multilateral Recognition of the European co-operation for Accreditation. On the basis of that Agreement, Moldovan products will be able to reach the European market with the conformity certificates issued by Moldovan certification bodies accredited by MOLDAC.

#### **MAIN PROBLEMS IDENTIFIED**

- Strengthening the quality infrastructure is a complex and continuous process, considering the need to adopt a large number of harmonized standards, which involves considerable institutional capacities. In this sense, the middle- and long-term efforts need to be focused on adoption of harmonized standards, and according to estimates it involves annual adoption of 2,000 European standards and annulment of old standards conflicting with them. Hence, while planning the process of adoption of European standards, one must consider a multitude of standards. Thus, up to 2010, European standardization bodies (CES/CENELEC) adopted about 17,000 standards, publishing about 2,000 new and reviewed standards annually. Moreover, authorities must keep consumers and businesses informed about the developments in the quality infrastructure. Currently, national authorities continue requesting assistance and expertise from European partners, such as Romania, in order to speed the processes of attaining compliance with European requirements.
- The National Accreditation Center MOLDAC must ensure credible and competent services of confirming the quality of domestic products and their compliance with European requirements. There still is no clarity in terms of signing the Agreement on European co-operation for Accreditation, which is indicative of persisting deficiencies in the field of accreditation. This supposition results from the fact that the information about MOLDAC evaluation, performed by the EA, which is available on official pages, is vague and unable to give an idea about the current stage of negotiations concerning the signing of the agreement. However, MOLDAC representatives said that the simulated parity evaluation is an advanced stage in the process leading to signing the agreement with the EA.

## **■ Elimination of restrictions and optimization of administration (non-harmonized sectors)**

#### **MAJOR QUARTERLY DEVELOPMENTS**

During the second quarter, the working group for the regulation of entrepreneurship had periodic meetings, where they discussed regulatory and legislative documents, as well as the impact analyses of these documents for various areas directly or indirectly related to entrepreneurship. The work of the WTO Notification and Information Centers, established according to Government Decision no. 560 of 01.08.2012, raises some doubt regarding efficiency in the provision of information to the interested public. In the context of establishment of the DCFTA, the centers' functions will be supplemented with information and notification about the free trade area with the EU. Therefore, their work needs to be used to the maximum extent.

#### **IMPACT OF THE ACTION TAKEN**

- The operation of the working group involves bringing together the main actors in entrepreneurship for the purpose of improving state policies in the field on the basis of some consulting on the vertical.

#### **MAIN PROBLEMS IDENTIFIED**

- Although the agenda of the working group for the regulation of entrepreneurship is publicly available on the website of the Ministry of Economy, it is difficult to assess the impact of its works, the level and quality of participation of the group's members, and the extent of relations with the civil society.
- The visibility in the work of the WTO Notification and Information Centers has been low. It is still difficult to identify the contact details of the persons coordinating the centers, although their appointment and training

had to be conducted by the end of 2012, according to the Report on the Performance of the Action Plan for the Elimination of Non-Tariff Barriers on Trade, approved by Government Decision no. 824 of 07.11.2011. The amorphous character of the centers may be determined by the difficulties in identifying the contact details of the persons employed in the centers through the website of the Ministry of Economy, although this information must be easily accessible to businesses. It should be remembered that the role of the centers is not limited to notifying the WTO, but it also includes provision of information to the interested public. Thus, the Ministry of Economy is to fully implement the Government Decision and to ensure that centers have sufficient visibility, which directly results in their efficiency and usefulness for the country's businesses. This task is imperative in the context of establishment of the DCFTA, when centers will receive the duties of informing and notifying about the free trade agreement with the EU.

## ■ Sanitary and phytosanitary issues

### MAJOR QUARTERLY DEVELOPMENTS

During the second quarter, the consumer protection strategy for 2013-2020 was adopted, and it is focused on the consumers' decision-making capacity and protection of their rights. Also, an Action Plan for 2013-2016 was adopted, containing performance indicators specified for certain objectives. The Ministry of Economy will be responsible for implementing the strategy as the main authority in the field of consumer protection policies, assisted by the Consumer Protection Coordinating Council and by the relevant public authorities. The draft new National Agriculture and Rural Areas Development Strategy for Moldova for 2014-2020 was approved. The Strategy shall be used to enhance the competitiveness of the agricultural production sector, also aiming at the development of rural areas. Brussels evaluated the progress reached by the Marketing Information Center of Moldova, namely the improvement of decision making on food security. In addition, the Ministry of Agriculture and Food Industry (MAFI) presented the project *Gradual Substitution of Chemical Plant Protection with Alternatives*, focusing on gradual substitution of chemical products in plant protection with alternative products. Also, the project *Competitive Agriculture* has been launched, involving support for the Government's agenda of reforms in food security and quality and harmonization with the trade standards of the EU. The representatives of the MAFI participated in discussions within the 2<sup>nd</sup> Platform of the Eastern Partnership (EaP) on the topic of *Economic Integration and Convergence with the EU Policies*. They focused on examining the possibilities for the Eastern Partnership countries to access funds within the European Neighborhood Program for Agriculture and Rural Development (ENPARD). It should be remembered that it is a political initiative by which the EU tends to contribute to inclusive growth and stability of partners in the European Neighborhood Policy. The initiative focuses on providing assistance in the area of food security, sustainable development, and employment in rural areas.

### IMPACT OF THE ACTION TAKEN

- The Consumer Protection Strategy for 2013-2020 will contribute to reducing the amount of dangerous products and prejudicial operations on the market. At the same time, it involves enhanced decision-making capacity of consumers, attainable by means of information and education, as well as legislative alignment to the EU standards of consumer protection and observance of consumer rights. The Strategy has the goal of reducing the risk of emergence of dangerous products and deficient services with at least 10%. According to estimates, budget expenses on consumer protection will grow annually from 10% to 15%, causing additional costs of about MLD 58 million in the period of 2013-2020. However, the Strategy will lead to at least 10% smaller risk of prejudicial operations. It could generate benefits amounting to at least MDL 1.3 billion during the entire period of Strategy implementation.
- The project *Gradual Substitution of Chemical Plant Protection with Alternatives* involves implementation of innovative technologies for the production and application of biological means for integral plant protection systems. These measures could contribute to promoting ecological agriculture and environmental protection.
- The *Competitive Agriculture* project is intended for 5 years and is to be implemented by the MAFI and the Ministry of Environment. The project comes to support the Government's agenda of reforms in the field of



food security and quality and bringing them in compliance with European requirements. It will all create investment opportunities for Moldovan farmers in order to modernize the infrastructure and practices in agriculture.

- The new National Agriculture and Rural Areas Development Strategy for Moldova for 2014-2020 aims at increasing the quality of agricultural production and at triggering development in rural areas. The measures described in the Strategy include renaming the MAFI into the Ministry of Agriculture and Rural Development and establishing a department responsible for rural development.
- ENPARD can contribute to the sustainable development of agriculture and of the rural areas overall. However, the capacities of national authorities to attract and efficiently use the funds provided by this program will be decisive.

## **MAIN PROBLEMS IDENTIFIED**

- The implementation of the Consumer Protection Strategy contains a series of deficiencies related to the insufficiency of finances for the realization of planned activities. It is caused by the uncertainties in planning the budget for a term longer than 3 years. The number of human resources involved in consumer protection activities is not sufficient for the high rate of violations. Moreover, the Strategy was adopted on the basis of a regulatory document (Government Decision). Therefore, there are no stimuli that would determine efficient collaboration and effort sharing between authorities. At the same time, although the Ministry of Economy holds the key responsibility for Strategy implementation, it has no hierarchic priorities compared to other authorities involved. Other risks derive from the passivity of consumers in the protection of their rights. In addition, consumers are not provided with comprehensive information, which reduces their decision-making capacity. It is due to the businesses' focus on obtaining profit from the fact that consumers are not informed, which is supplemented by inefficient state supervision. Most of the above-mentioned problems will persist in the absence of a relevant legal framework. Thus, the development of a draft law in order to transpose Directive 2001/95/CE of the European Parliament and Council of 03 December 2001 on the general food security is planned only for 2015. Other important draft laws are planned for approval in 2013-2016. The level of uncertainty will be largely determined by the unpredictability of the political process (from the perspective of functionality of the executive and legislative bodies after the following electoral cycle).
- It is currently difficult to evaluate the efficiency of the Marketing Information Center of Moldova due to the lack of relevant information on the official webpage of the Ministry of Agriculture and Food Industry (MAFI). It should be remembered that this body was established within the Ministry in order to enhance the quality of decision making by providing data and analyses concerning the agricultural sector and facilitating negotiations on the DCFTA.
- MAFI representatives signed collaboration agreements with the Spanish company AISA "Aditives Inteligentes," which cover the issues of registration and homologation of its biological products in Moldova. However, to enhance the impact of the project of gradual substitution of chemical substances in agriculture, an as large as possible number of European and other international companies shall be attracted on the basis of a transparent contest.
- The actions necessary to implement the new National Agriculture and Rural Areas Development Strategy for Moldova for 2014-2020 involve institutional and financial costs. Attraction of investment in rural regions will still be the only durable way of fully contributing to improving the quality of life in rural areas. In this regard, economic projects aiming at the creation of industrial parks and business incubators are welcome.
- It should be remembered that in 2013 Moldova lost the opportunity to participate in the pilot project of rural development – ENPARD Like. According to the MAFI management, it was caused by exclusion of agriculture from Strategy 2020. Thus, it is allegedly intended to attract funds (including ENPARD) for rural development through other ministries, to the detriment of MAFI. Agriculture is now also regarded separately from rural development, although they are approached as a "single package" at the EU level. Therefore, to fully benefit from the funds offered by the ENPARD, authorities must apply European approaches in agriculture and eliminate any political interference in the field.

## ■ The right of establishment and company law

### MAJOR QUARTERLY DEVELOPMENTS

Key developments include the finalization of the strategy for reforming the entrepreneurship regulation framework for 2013-2020 and its transmission for Government approval on 20 June 2013. The new strategy proposes to change the philosophy of reforms: from de-regularizing (eliminating useless regulations and excessive administrative requirements, which outlined the quantity rather than the quality of reforms) to developing an intelligent regulatory system. The schedule of planned checks for the third quarter of this year has been approved, and it includes checking the list of contributors to the state social insurance budget, which had been scheduled during the third quarter of 2013.

### IMPACT OF THE ACTION TAKEN

- Proper and timely implementation of the strategy for reforming the entrepreneurship regulation framework will enable greater efficiency in regulating entrepreneurship, reduced state interference with the work of business entities, and evaluation of the impact of regulation at the stage of development of legislative and regulatory documents, as well as continuing evaluation of the existing legal framework. It will have a positive impact on simplifying the work of entrepreneurs.
- Approval of a precise schedule of planned checks for the third quarter of 2013 will enable greater efficiency in monitoring the payers of contributions to the state social insurance budget and will contribute to some extent to disciplining taxpayers. It should be mentioned that the checks will include verification of whether the allowances for temporary disability are established and paid correctly.

### MAIN PROBLEMS IDENTIFIED

- The competitiveness of the Moldovan business environment is still substantially deficient, being characterized by uncertainty and high operational costs. Moldova ranks 83<sup>rd</sup> out of 185 economies according to the most recent “Doing Business” report and 87<sup>th</sup> out of 144 economies according to the Global Competitiveness Report. Companies face significant barriers in their activity, starting from obtaining licenses for various types of activity, import of products, access to and obtaining of cheap financial resources, and deficient competition environment.
- Moldova faces difficulties in attracting FDI in economy, especially because of some important factors (political instability, inadequate investment climate, high country risk, imperfect legislation, underdeveloped stock exchange, poor infrastructure), as well as some more specific obstacles (high level of corruption at nearly all levels, among other things). Deficiencies in the labor market add to these constraints and could affect the long-term investment attractiveness. Moreover, internationally, Moldova is perceived as a country with a very high level of risk, although the investment protection level has improved compared to the previous period.

## ■ Services

### MAJOR QUARTERLY DEVELOPMENTS

The service sector is one of the most sensitive in the process of adjustment to European standards and directives, and it had a fundamental impact on the progress in this direction during the second quarter. However, the most dynamic development was recorded in the sector of information technology services. Thus, the draft national strategy for information society development “Digital Moldova 2020” was proposed for public consultations in March, and in April the document was presented at the ministry meetings as part of the Moldova ICT Summit 2013. The strategy sets the vision and objectives of information society development in Moldova, identifies constraints, suggests strategic solutions, outlines the necessary actions and implementation stages, establishes the monitoring and evaluation framework, and is aimed at ensuring a systemic and predictable development of the country, based on the principles set in the “Digital Agenda for Europe 2020”. In another train of thought, the National Regulatory Agency for Electronic Communications and Information Technology (NRAECIT) proposed for public consultations the drafts of the

Administration Board decisions on imposing special preventive obligations on the JSC “Moldtelecom” in connection with its significant power on the market of wholesale access to the network infrastructure at a fixed point and on the market of wholesale broadband access. Taking into consideration the analysis of these markets, NRAECIT proposed modifications to the preventive special obligations on JSC “Moldtelecom” in 2011 as part of the first cycle of these markets’ analysis, and then new preventive special obligations.

#### **IMPACT OF THE ACTION TAKEN**

- The draft national strategy for information society development “Digital Moldova 2020” is based on 3 main pillars supporting the development of information society: infrastructure and access, digital content and electronic services, and strengthening the capacities of using the benefits of ICT. Its efficient implementation will trigger sector development by facilitating broader access to infrastructure and increasing the penetration of information technologies throughout the country and at the level of businesses and public institutions. The implementation of ICT instruments in commercial operations, interaction between companies and public institutions, as well as application in the work of public institutions will essentially improve the quality of the business environment and increase the quality of public services.

#### **MAIN PROBLEMS IDENTIFIED**

- Various sectors and public institutions maintain increased resistance towards the implementation of information technology. It is conditioned by the insufficiency of human resources with the abilities and time necessary for involvement into this process, as well as persistence of some obscure interests in certain fields, which do not wish increased transparency or technologization of some processes.
- Although the text of “Digital Moldova 2020” was produced in 2011, the document is still under examination within competent institutions. This delay does not bode well for the efficient implementation of the action plan. At the same time, the strategy does not include estimates regarding the financial cost of the planned actions, and it is a major constraint considering the large amount of resources necessary to implement the action plan.
- At the negotiations for the establishment of the Deep and Comprehensive Free Trade Area between Moldova and the EU, the liberalization of the service sector was one of the most sensitive and difficult issues. The reason consists mainly in the major penetration of some state-owned companies in various sectors (telecommunications, air transport, postal services) and the reluctance of Moldovan authorities regarding the liberalization of these markets. As a result, certain transition periods were negotiated in order to fully implement the provisions of European directives.

## **■ Financial services**

#### **MAJOR QUARTERLY DEVELOPMENTS**

During the second quarter, a number of important actions were undertaken in order to strengthen the regulatory framework of the finance and banking system, according to the requirements of the EU legislation. In April, a series of modifications and supplementations to the Law on Financial Institutions entered into force, transposing and modifying the provisions related to restrictions on the participation shares of banks in the capital of legal persons. At the same time, in June the National Bank of Moldova proposed for consultation the draft regulations on participation interest in the share capital of a bank, which provide for implementing some legislative provisions of March 2013 concerning the reform of the legal framework on share ownership. The regulations transpose the principles of the EU legislation concerning the regulation of share ownership and are based on the best European practices in this regard. At the same time, the National Bank of Moldova continued the process of adjusting the regulatory framework to the provisions of the Law on Payment Services and Electronic Money, which is to enter into force this autumn. Thus, the following were proposed for consultation with the public: draft decision of the Administration Board aiming at adjusting notions to the new law; establishment of the obligation to observe the requirements for the transparency of conditions and information about the payment services covered by the law; establishment of requirements for adjusting contractual

arrangements to legal provisions; establishment of requirements for the authorization and execution of payment operations and requirements related to liability for failure to execute or improper execution of payment operations.

#### **IMPACT OF THE ACTION TAKEN**

- According to the adjustments of the Law on Financial Institutions, without the written permission of the National Bank, no bank, by itself or as beneficial owner or as part of a group of persons acting jointly, will be able to own a share of 20% or more in the capital of a legal person and to hold the total book value of such shares that is greater than 50% of the bank's regulatory capital.
- The implementation of the Law on Payment Services and Electronic Money will create prerequisites necessary to popularize the use of plastic cards as means of payment. In its turn, it will contribute to reducing shadow economy and increasing tax revenue to the state budget.

#### **MAIN PROBLEMS IDENTIFIED**

- The draft regulations on the participation interest in the share capital of a bank come amid this year's conflict between the shareholders of the largest Moldovan bank, which revealed several deficiencies in the monitoring and supervision of operations with shares in commercial banks. However, the greatest challenge is related to the efficient implementation of these regulations and to encouraging banks to abide by the stipulated conditions.
- Although the Law on Payment Services and Electronic Money will set a regulatory framework that is favorable for popularizing electronic payments in Moldova, authorities are still to deal with certain constraints. First, the infrastructure of accepting plastic cards is still poorly developed, which discourages their use as means of payment. This problem is especially acute in the services often used by the population (e.g. hairdressers', taxi, public transport, public services, etc.). At the same time, the penetration of terminals accepting plastic cards is very poor in rural areas and small towns. As a result, it predisposes businesses to unofficial operations, causing significant opportunity costs for the state budget and local budgets.

## **■ Circulation of capital and current payments**

#### **MAJOR QUARTERLY DEVELOPMENTS**

Developments in this area are encouraging and bode well for stimulating foreign direct investment fluxes in the country. Statistics concerning foreign direct investments for the second quarter have not yet been published, but the fact that they doubled in the first quarter compared with the same period of the previous year is a good indication of the revival of investment activity this year. According to the State Registration Chamber, 50 foreign capital companies were registered during the period of January-May 2013, which is about one fifth of those registered during the entire previous year. The majority of foreign capital companies have investments from Romania, but in terms of the amount of share capital invested in them, the first position is taken by the Netherlands, followed by Italy and Russia.

#### **IMPACT OF THE ACTION TAKEN**

- Investment activity, especially foreign direct investments, is the main engine for creation of jobs in an economy. The quality of the investment environment in its turn influences working conditions, including the level of pay, and, therefore, the population's standard of living. Moreover, foreign direct investments are an important source of transfer of technology and know-how, which contributes to improving the competitiveness of the Moldovan economy. Therefore, the increase of foreign investment influxes in the first half of this year is favorable for the development of the private sector of Moldova and is a sign of economic recovery anticipated for the following years.

#### **MAIN PROBLEMS IDENTIFIED**

- Compared with other countries of the region, the level of foreign direct investment per capita in Moldova is very low, which is determined by an unfriendly business environment, macroeconomic instability, and political uncertainty. In addition, a large part (it is difficult to estimate the exact amount) of the investments that are considered foreign, are in fact financial influxes performed by some local companies through other off-shore companies. Evidently, these operations have nothing in common with increasing the competitiveness of Moldovan economy and modernization of the country, which is usually encouraged by investments.

## ■ Movement of persons, including movement of workers, and social security coordination

### MAJOR QUARTERLY DEVELOPMENTS

In the second quarter, the Ministry of Labor, Social Protection and Family of Moldova conducted a number of communication activities for Moldovan emigrants aimed at presenting the benefits arising from international agreements in the field of social security signed with other countries. As a result, many Moldovans will be able to benefit from social protection while working abroad and when returning into the country. Negotiations were held concerning the draft agreement on social insurance with Lithuania. Similar negotiations are being held with Italy, Poland, and Hungary. The Government approved a draft law on conditions of crossing the state border for foreigners. It includes the list of countries (about 60), whose citizens are exempted from visas when travelling in Moldova. Milder conditions for foreigners were introduced following the adjustment of some legislative documents in the field of migration and asylum as introduced by the draft law adopted by the Parliament. A website ([www.antitrafic.gov.md](http://www.antitrafic.gov.md)) was launched aimed at the problems of victims and potential victims of trafficking in human beings (THB). It also serves as an information platform for specialists in preventing and combating THB. Another information instrument in the field of migration was launched by the Bureau for Migration and Asylum under the Ministry of Internal Affairs, in collaboration with the IOM – “Migrants’ Guide in the Republic of Moldova”.

### IMPACT OF THE ACTION TAKEN

- Communication campaigns can contribute to informing and empowering Moldovan emigrants. Information about the social allowances provided by the agreements signed by Moldova will have a positive impact. It will allow enhancing the social protection of Moldovans working abroad.
- The draft approved by the Government confirmed the list of countries whose citizens are exempted from the obligation to receive transit or entry visas for Moldova (for a period of 90 days, within 6 months). According to the draft law on migration and asylum, adopted by the Parliament, foreign citizens and stateless persons will be able to stay in Moldova for longer periods. Thus, they will be able to extend the term for leaving Moldova if they present solid motivation.
- The website dedicated to combating trafficking in human beings ([www.antitrafic.gov.md](http://www.antitrafic.gov.md)) is an innovative source of online information for the population. However, it should be seen as an additional source of information to the traditional ones (non-digital).

### MAIN PROBLEMS IDENTIFIED

- The information activities conducted by the Ministry are primarily aimed at the citizens that are part of the expatriate communities organized in easily identifiable public associations. In fact, a significant proportion of Moldovan emigrants do not establish relations with expatriate organizations. For this reason, they are indirectly excluded from communication about the advantages of agreements aiming at the social security of Moldovan emigrants. These aspects reduce the impact of information campaigns. Therefore, more inclusive strategies are to be developed, so as to cover a greater number of Moldovan citizens, including those outside the institutionalized expatriate community.
- A number of deficiencies can be found in the draft law establishing the list of countries whose citizens can travel without visas in Moldova, recently adopted by the Government. According to the draft document

available on the website of the Ministry of Foreign Affairs and European Integration, only stateless persons and the refugees from the countries that already have a liberalized visa regime with Moldova can be exempted from visas. In fact, it involves no benefits for the refugees from the countries that are not in visa-free relations with Moldova. At the same time, some important countries in geographic proximity and from other regions were not included into the list of countries whose citizens need no visas. This list includes Turkmenistan (which is a CIS member state), with which Moldovan authorities intend to increase economic relations, including in the energy sector. Also, the West Balkan countries (Serbia, Macedonia, and Montenegro) are excluded from the “white list”, although the majority of them are at an advanced stage of European integration. The principle of reciprocity is fundamental, but given that the visa-free regime works with about 60 countries, economic reasons cannot be neglected.

- As an online platform, [www.antitrafic.gov.md](http://www.antitrafic.gov.md) must be used not only for informing, but also for raising public awareness, conducting online THB prevention campaigns, etc. Interconnected with social networks, the platform can become a useful instrument for warning and collecting information about the victims and potential victims of THB. In this regard, a relationship of trust is to be created between the platform, coordinated by the National Committee for Combating THB, and citizens/Internet users.

## Taxation

### MAJOR QUARTERLY DEVELOPMENTS

Improved political situation contributed to unblocking the decision making on the issues of fiscal and budget policy. The second round of negotiations between Moldova and Malta on avoidance of double taxation and prevention of income tax evasion took place in May. At the same time, the Government adopted the Strategy for Public Finance Management Development for 2013-2020, which correlates with the provisions of the EU legislation. The Court of Accounts continued assessing the manner in which various public institutions manage the public property. Particularly, audit was performed at the Main State Tax Inspectorate, the results of which were presented on 17 July.

### IMPACT OF THE ACTION TAKEN

- So far, Moldova has signed agreements on avoidance of double taxation with 45 countries. Their importance is undeniable, given the facilitation of economic cooperation with other countries, establishment of fiscal equity for all business entities, and consolidation of fiscal authorities’ capacities in combating tax evasion at the international level.
- Generally, the efficient implementation of the Strategy for Public Finance Management Development for 2013-2020 will allow improving public finance management and promotion of processes and systems guaranteeing responsibility, transparency, observance of human rights, in compliance with European standards and practices.

### MAIN PROBLEMS IDENTIFIED

- Although during the first 5 months of this year the amount of income accumulated in the national public budget was 8.7% greater than in the same period of the previous year, the income was 0.3% smaller than the planned level. It was caused by the fact that only 42.2% of the amounts of foreign grants planned for this period were actually disbursed, which reveals problems in the planning and absorption of external funds and budget constraints of the international community in the context of difficult economic conditions. In addition, there are some problems with the collection of VAT on imported goods, which were 0.8% less than planned.
- According to the Court of Accounts’ audit report for the Main State Tax Inspectorate, there are deficiencies and irregularities with the organization and conduct of oversight on: observance of tax legislation; correct calculation, full and timely collection of taxes in the national public budget; VAT administration; anti-evasion and anti-fraud. Perpetuation of these systemic problems is one of the main constraints in consolidating the stability of public finances.

- Moldova has not yet managed to conclude conventions on avoidance of double taxation with other countries with which our country has relatively intense economic relations, such as France, Greece, or the Netherlands.

## ■ Competition policy

### MAJOR QUARTERLY DEVELOPMENTS

One of the key developments has consisted in unblocking the activity of the Competition Council after approval of the Council composition on 12 July 2013, immediately before the Parliament vacation. Also, in the middle of 2013 the law on state help entered into force, establishing the necessary legal framework for authorization, monitoring and reporting about state help provided to beneficiaries from all sectors of the national economy, except the sector of agriculture. According to this law, the body responsible for authorization, monitoring and reporting about state help is the Competition Council.

### IMPACT OF THE ACTION TAKEN

- The approval of the Competition Council composition allowed unblocking its activity. Thus, it is in full process of reforming and establishing the necessary regulatory framework, developing draft documents necessary for producing relevant amendments, among other things.
- Proper implementation of the law on state help will allow enhancing the efficiency of authorization, monitoring and reporting about state help provided to beneficiaries in all sectors of the national economy, except the sector of agriculture, which is regulated by a separate regulatory framework. It should be mentioned that a precondition for negotiation of the DCFTA by Moldova was approval of laws in the field of competition and state help.

### MAIN PROBLEMS IDENTIFIED

- One of the major obstacles in this regard is the existence of a high level of corruption practically everywhere, including the sectors of national economy, and the identification of hidden interests, cartel agreements, and other types of actions aimed at own interest to the detriment of other interests, which paralyze the development of national economy and a healthy business environment, is a very difficult process, including given the cultural specifics and the small size of the country.
- Delayed approval of the nominal composition of the Competition Council paralyzed its activity and, accordingly, made it impossible to act promptly upon identification of violations by business entities. At the same time, the slow pace of the justice sector reform, which also faces numerous problems, including corruption in courts, is an obstacle for developing and ensuring a healthy competition and business environment. An important factor is also persistence of relatively high mistrust of the population in the system.

## ■ Intellectual and industrial property rights

### MAJOR QUARTERLY DEVELOPMENTS

During the second quarter, the Agreement between the EU and Moldova on Protection of Geographical Indications (GI) of Agricultural Products and Foodstuffs, signed on 26 June 2012, entered into force. This Agreement is part of the process of establishing the Deep and Comprehensive Free Trade Area (DCFTA), and it provides opportunities for promoting domestic products on the European market. Discussions were held between national authorities and the European Patent Office (EPO) concerning the agreement on validation of European patents on the territory of Moldova. The institutions are currently cooperating within a Joint Action Plan (2012-2013). The State Agency for Intellectual Property (SAIP) and a number of state structures, such as the Chamber of Commerce and industry (CCI), the National Institute of Justice, and the National Heraldry Committee strengthened their collaboration in the protection of geographical indications (GI), designations of origin (DO), and traditional specialities guaranteed (TSG). Another

document that can be mentioned in this context is the Additional Protocol to the Agreement on Collaboration in the Field of Promotion and Legal Protection of Intellectual Property Objects, signed between the SAIP and the CCI. It prescribes actions aimed at informing and training, which are to be conducted during 2013 in order to popularize the national system of GI, DO, and TSG protection. A number of monitoring reports in the field of intellectual property were examined at the meeting of the National Commission on Intellectual Property (NCIP), which found certain systemic problems caused especially by piracy.

#### **IMPACT OF THE ACTION TAKEN**

- To implement the Agreement with the EU, an action plan is to be developed, which will facilitate the execution of the obligations assumed by Moldova, including promotion of local GI protection.
- The agreement with the EPO could be signed by the end of this year, but to implement it, an action plan is to be proposed, supporting the practical application of its provisions. After this agreement is signed, EU patents will be legally valid in Moldova. As a result, it will facilitate the interconnection between local manufacturers and European technologies and inventions, due to exclusion of additional costs on the recognition of EU patents by Moldovan authorities.
- The additional protocol signed in May between the SAIP and the CCI provides for promoting the national system of GI, DO and TSG protection among business entities/local manufacturers. Information and training activities concerning registration procedures and required documents, including specifications for the relevant objects, are to be conducted for business entities. Also, it is provided that the local products that could be protected by GI, DO and TSG shall be identified together with manufacturers in order to promote them on the domestic and foreign markets.
- The NCIP suggested to the Ministry of Information Technology and Communications to form an interdepartmental working group, which would develop a strategy for reducing software piracy. In addition, the NCIP asked the SAIP to increase piracy awareness among citizens by organizing public and educational campaigns. However, the NCIP requests have been formulated as recommendations, given the fact that it is a purely consultative body.

#### **MAIN PROBLEMS IDENTIFIED**

- The impossibility to remove deficiencies in the registration of GI and DO at country level, as identified by the NCIP, minimizes the importance of the agreement with the EU in this field. According to the NCIP, GI and DO protection at the international and European level faces difficulties, and the potential of promoting the export of high quality domestic products is still limited.
- Although the agreement mainly refers to the validation of patents issued by the EPO, there is no clarity as to the SAIP capacities and the mechanism it will use to ensure the implementation of the relevant provisions. In this regard, the SAIP is to develop an action plan that would explain the mechanism that will be used to coordinate the recognition of EU patents.
- The actions envisaged to promote the national system of GI, DO and TSG protection so far have included only seminars, which, while contribute to informing business entities, have a limited effect in time. Therefore, it would be welcome to conduct actions supplementing these efforts by introducing “new media” components, information support websites created on free platforms, and by creating an information network with the participation of manufacturers. The latter would make information activities (such as seminars or trainings) more sustainable. In another train of thoughts, a limited number of institutions undertook actions to identify potential GI products in their area of expertise. This problem was identified from the questionnaire evaluating the relevant authorities’ readiness to implement the legislation on GI.
- Despite harmonizing the national legislation on copyright with European directives, authorities face difficulties with combating software and movie piracy. The identified problems have existed for many years, and this fact confirms suspicions regarding limited capacities of authorities to align to European directives. In this sense, instead of coercive actions, the NCIP formulated suggestions with the title of recommendations, whose role is



purely consultative. Thus, there is no agenda with deadlines and clear commitments for public institutions and subordinated structures.

## ■ Public procurement

### MAJOR QUARTERLY DEVELOPMENTS

During the reported period, this area saw a modest development, a fact caused both by institutional constraints and by political blockage. The recently launched the Automated Information System “State Register of Public Procurement” (AIS SRPP) continued to be developed, and over 100 tenders and price requests have been placed in it. This instrument enables online registration of intention announcements, submission of invitations for participation, approval of tendering documentation, and publication of tender results. Another important development is the fact that beginning in April, the territorial services of the Public Procurement Agency will examine and record the results of public procurement procedures for foodstuffs, oil products, catering services, and sanitary-veterinary services, whose estimated value does not exceed MDL 2.5 million, VAT not included, and works whose estimated value does not exceed MDL 400 million, VAT not included.

### IMPACT OF THE ACTION TAKEN

- The automated information system is to enhance the efficiency of public procurement by increasing transparency, diminishing information asymmetry, and simplifying participation in tendering procedures.

### MAIN PROBLEMS IDENTIFIED

- The legal framework regulating public procurement is still imperfect. In essence, it gives priority to the offers with the lowest price, to the detriment of quality and tender participants’ profile. As a result, preconditions appear for the phenomenon of “arranged tenders,” which undermines the efficiency in the use of public property. This problem is particularly acute in smaller communities, where the process of public procurement is the most non-transparent.
- The institutional capacities of territorial services of the Public Procurement Agency, especially in terms of human resources, are limited, which hinders improvement in public procurement throughout the country.

## ■ Statistics

### MAJOR QUARTERLY DEVELOPMENTS

The key developments in this area include organization of a pilot census in the conditions similar to those of the census planned for 2014, which is to be held in the period of 1–14 April 2014 according to international standards. The pilot census was conducted in the Buiucani district of Chisinau, covering about 1,500 households, and in the Zaim community of Causeni region. Its main objective was to test the census documentation, duties of the temporary census personnel, and the technologic process of processing the gathered data. Also, the Memorandum of Cooperation in Energy Statistics was signed on 10 April 2013. The main goal of this plan is to adjust Moldovan energy statistics to the EU Regulations and international standards. On 30 May 2013, final results of the general agricultural census were launched (the census was first conducted in Moldova in the period of 15 March – 15 April 2011). It was conducted according to the Eurostat methodology standards and recommendations of the UN Food and Agriculture Organization (FAO) for performance of agricultural census in the period of 2006-2015, to situate into the Global Round of Agricultural Censuses 2010. It should also be mentioned that a new methodology for the development of food balances with the support of the EC/FAO Program (program financed by the European Commission and implemented by the UN FAO) was adopted in June 2013.

### IMPACT OF THE ACTION TAKEN

- For the first time in Moldova, the 2014 census will involve collecting information about buildings and housing, regardless of their type and of whether they are inhabited or not, other housing units, collective living spaces, which is in compliance with the international standards for conducting population censuses. It should be mentioned that the results of the 2014 population census in Moldova will be a part of the global census totals, round 2010, conducted according to UN recommendations and principles.
- The memorandum of cooperation in the field of energy statistics will have a positive impact on the development of energy statistics in Moldova and in the region. It mainly provides for implementing the Energy Statistics Action Plan (ESAP), specifying the responsibilities of the parties and their role in conducting the scheduled activities.
- Ample information about the sector of agriculture, obtained from the census, is important for developing state policies in agriculture, monitoring and assessing development programs for the country's agricultural production sector and for strengthening the system of agricultural statistics by obtaining new data and information about agricultural holdings, in order to create a register of agricultural units for the purpose of conducting new statistical researches in agriculture.
- Food security is one of the most important parameters for country security, and in order to characterize the food supply of the population, the balances of food resources allow obtaining data that characterize the formation and use of food resources, consumption of food products, the level of the country's self-supply with agricultural raw materials and food, and import demand. The new balances of food resources have been used to define the indicators characterizing the country's food security, especially the degree of dependence on food imports and self-supply with the main types of food products.

#### **MAIN PROBLEMS IDENTIFIED**

- One of the key problems that persist in this area is the fact that so far there is no correlation and integral harmonization of the methodology for calculating statistic indices according to international standards. At the moment, efforts are made to update the methodology used to calculate certain indices according to European standards. However, certain existing indices that are broadly used in the international practice, which would allow comparing data, are either unavailable or not made public, which makes the analysis of trends and the research in the relevant areas difficult.

## **■ Financial control and related aspects**

#### **MAJOR QUARTERLY DEVELOPMENTS**

During the second quarter, some developments were found in the international relations of the Court of Accounts and in its human resources. The Court of Accounts of the Republic of Moldova (CARM) and the Court of Accounts of Romania (CAR) signed an action plan on joint activities in the context of implementation of the Cooperation Agreement between the CAR and the CARM of 28 June 2006. The action plan, which covers the period of 2013-2014, is aimed at developing the institutional capacities of the two supreme audit institutions, and its objectives are focused on enhancing the quality of audit and improving the performance of the personnel involved in this activity. The Court of Accounts continues implementing a training program for its employees, especially for the audit personnel. In this regard the institution benefited in June from a consultancy mission from the National Audit Office of Sweden. The experts' mission was aimed at participating in the sessions of internal training for the Court of Accounts' junior auditors, and at examining the results of the pilot audit conducted at the Ministry of Economy.

#### **IMPACT OF THE ACTION TAKEN**

- The impact of the collaboration agreements with other institutions or training programs can be observed only with the passing of time. However, we can expect that these actions will strengthen the institutional capacities of the Court of Accounts and ensure public financial control of high quality. In its turn, it will contribute to increasing public trust in the Court of Accounts and to increasing the rate of execution of its recommendations.

## MAIN PROBLEMS IDENTIFIED

- Despite numerous audit missions, which systematically identify various irregularities in the management of public property and losses for the state budget, the majority of Court of Accounts recommendations are not implemented or are implemented only partially. Moreover, in multiple cases legal institutions fail to take into consideration the violations mentioned in the Court's reports. It eventually undermines the authority of the Court of Accounts, creating moral hazards among public authorities.

## ■ Industrial policy

### MAJOR QUARTERLY DEVELOPMENTS

One of the key developments in this area is the approval of the National Consumer Protection Strategy for 2013-2020. The basic provisions of the strategy are aimed at reducing the risk of emergence of dangerous products and transactions with risk of prejudice on the market with at least 10%, which could bring benefits of at least MDL 1.3 billion during the entire period of the strategy. The main goal of the strategy consists in reducing the number of dangerous products and transactions with risk of prejudice on the market, harmonizing the consumer protection objectives with those applied in the EU, and solving the problems identified in this area. Also, on 10 July 2013, the Government approved the decision on establishment of the "Raut" industrial park. According to estimates, the park will host up to 60 new companies. It should be mentioned that industrial parks are the industrial policy promotion instruments that provide investors with a number of facilities.

### IMPACT OF THE ACTION TAKEN

- The implementation of the National Consumer Protection Strategy will contribute to implementing the best practices of market supervision, including efficient cooperation with the customs authorities, facilitating the reception and examination of petitions by relevant authorities, enhancing the efficiency of contractual relations, communication between public authorities and consumers by means of information technologies, strengthening institutional capacities in terms of claiming rights and recovering prejudices by judicial and non-judicial means. To realize the proposed objectives, an action plan was developed for implementing the consumer protection strategy for 2013-2020. The plan has such a structure that its actions are divided for each objective, and the expected result is measurable.
- According to the feasibility study, the creation of the "Raut" industrial park will stimulate attraction of foreign investment and innovative technologies, which will contribute to economic growth due to creation of new production capacities and about 1,300 new jobs, while attracting new consumers and taxpayers into the region. It should be mentioned that the key facilities that industrial parks offer to investors are as follows: exemption from compensation of losses caused by exclusion of lands from the category of agricultural lands, the right to privatize state-owned land for constructions at the normative price of land, up to 30% reduction of the annual payment for rental of state-owned land, optimization of state checks by conducting planned checks according to the annual schedule approved by Government decision or unannounced checks conducted with the agreement of the Ministry of Economy according to the legislation in force.
- A Center for Active Technical Training (CATT) is to be created in the town of Straseni, in partnership with the Ilmenau Technical University and the "Eisenach" Trade Academy in Germany. This center is planned to annually train over one thousand qualified workers and about 100 operational managers for the industrial companies resident in the Balti Free Economic Zone, including Straseni sub-zone, and for other companies willing to participate in the new training system. The CATT will be created on the basis of the trail training concept, which involves participation of the state, the educational institution, and private companies in the educational process. It should be mentioned that the equipment for practical training will be provided by companies and will be identical to the one that trainees will be further using for work, with companies participating actively in the training program, adapted to the concrete needs of each enterprise.

## MAIN PROBLEMS IDENTIFIED

- Business climate constraints, high levels of corruption, outdated technology, high non-tariff barriers, poor investments, which ultimately come down to the issue of competitiveness, hinder the development of the industry sector. Therefore, the business environment has to be improved by actions assumed and coordinated by relevant ministries and other public authorities. The main focus should be placed on facilitating cross-border trade, improving tax and customs administration, removing bureaucratic barriers in obtaining various licenses, protecting property rights, ensuring proper and efficient activity in the main regulatory agencies, and transparency of public institutions.
- Considering that in many cases the quality of construction works proved to be poor, undermining the positive effects of investments, it is necessary to ensure more competitive tendering procedures and to intensify the audit of the quality of such works. Also, it is necessary to consolidate the transparency of tendering procedures for such projects, to ensure free and equal treatment for each participant, and to create a clear mechanism for monitoring and accountability.
- Defects in ensuring a fair competition environment, justice sector weakness, and low public confidence in the justice sector hinder the development and creation of an efficient business environment and the development of the industry sector. At the same time, the growth of the informal sector, deficiencies in the availability of qualified personnel, high transaction costs, and high country risk lead to difficulties in attracting foreign investments into the country and, accordingly, in renewal of technologies applied in industry.

## ■ Transport

### MAJOR QUARTERLY DEVELOPMENTS

The draft Road Transport Code has been approved and sent for examination to the Moldovan Parliament. The Code regulates the legal framework for organization and conduct of road transport of goods and persons, setting safety and quality requirements. This Code could impulse the economic activity in transport services, given that economy is based on imports and on the economic activity of Moldovan emigrants (determinable due to remittances). The Government approved a decision on leasing the assets of the state enterprise *Chisinau International Airport* on the basis of a public-private partnership, according to Government Decision no. 438 of 19.06.2012. It would allow attracting investments for improving the airport infrastructure and services. A corridor for the sea-rail transportation of goods between the Black Sea and the Baltic Sea has been put into operation. Transportation will be performed by regular train and is part of the regional project ZUBR (for container transportation). This project creates new interconnections between the Giurgiulesti International Free Port and the sales markets in Belarus, Ukraine, and other countries in the above-mentioned regions.

### IMPACT OF THE ACTION TAKEN

- The Road Transport Code can be adopted during the Parliament's autumn session, in conditions of a calm political situation and lack of influence on politicians by the relevant business circles. If the Code enters into force, it will activate the safety and quality criteria in road transportation of goods and persons. Also, the Code stipulates the rights and obligations of the public authorities responsible for the organization of road transportation, and of other natural and legal persons that provide services in this field.
- The concession of assets of the state enterprise *Chisinau International Airport* on the basis of a public-private partnership creates new development opportunities for the company. Also, it is a step forward in realizing the provisions of the agreement on the European Common Aviation Area between the EU and Moldova (signed in 2012) in the field of investments and competition.
- The existence of the sea-rail corridor for the transportation of goods between the Black Sea and the Baltic Sea will amplify the importance of the Giurgiulesti International Free Port as a destination point in the region for the transportation of international goods. In a medium and long term, this project can contribute to the economic development of the country's South region and ensure revenue for the state budget.

### MAIN PROBLEMS IDENTIFIED

- The implementation of the Road Transport Code could face difficulties, given the costs that would be covered by the businesses in the field in order to comply with the safety and quality standards. An important aspect is the efficiency of informing consumers about the new conditions in road transportation and the procedure of complaining about their violation. The main role will be played by the public authorities responsible for the implementation of the Code.
- The efficient participation of Moldova in the regional project ZUBR depends on the country's infrastructure capacities. Therefore, it is necessary to ensure sustainable investment projects that would allow maintaining the Cahul-Girgiulesti railway route in a functional condition.

## ■ Energy

### MAJOR QUARTERLY DEVELOPMENTS

- During the monitored period, several strategic documents were launched for public consultations: draft Government decision on the strategy for the development of Moldova with low carbon emissions up to 2020; draft Government decision on approval of the National Action Plan for Renewable Energy for 2013-2020. The Ministry of Economy initiated negotiations concerning the draft protocol on introducing modifications into the agreement on coordination of relations between the CSI countries in the field of electric energy of 14 February 1992.
- The National Energy Regulatory Agency has launched the project on amending the methodology of determination, approval and application of tariffs for the electric energy transport service, which does not provide for introducing additional costs into tariffs to cover unjustified energy losses.
- Beginning in June 2013, the State Energy Inspectorate will measure the quality of electric energy by using high performing equipment that allows such monitoring.
- Both Romania and Moldova have already launched tendering procedures for construction of the Iasi-Ungheni gas pipeline.
- One of the focuses during the reported period was placed on the discussions concerning the possibilities to receive funding from international structures. For example, Moldova might be especially interested in the Scaling Up Renewable Energy in Low Income Countries Program (SREP), funded by the Strategic Climate Fund.
- An example of good practices during the monitored period is the case of the Sudzucker Moldova company, which announced that it would launch a plant for the production of biogas from sugar beet pulp, allowing maximum use of the waste resulting from the extraction of sugar from beet by transforming it into "green energy" and organic fertilizers.

### IMPACT OF THE ACTION TAKEN

- The tariff for final consumers will include only the cost of the technological consumption and regulated technical energy losses directly related to the technological process of transporting electric energy through electric power transmission networks. So far, electric energy to cover technological consumption and electric energy losses in electric power transmission networks was purchased by electricity providers, and the related costs were included into the tariff of electric energy supply.
- The work of the biogas installation at the Sudzucker AG factory will produce secondary waste – a substrate that is a highly efficient organic fertilizer.
- Production of a feasibility study for the Iasi-Ungheni gas pipeline with the support of the Joint Operational Program Moldova-Ukraine-Romania will reveal the optimum modality for the interconnection of the two energy systems.
- By funding projects aimed at improving energetic efficiency in the residential sector, one can produce an impact on the development of the energy consumption culture.

### MAIN PROBLEMS IDENTIFIED

- The important strategic document that provides for a 25% reduction of greenhouse gas emissions directly resulting from the energy sector by 2020 does not contain a clear mechanism for attaining the main goals. Major problems relating to the development of the industry, transport, and energy sectors have no strategic solution up to 2020.
- The National Energy Regulatory Agency presented a Preliminary Analysis of Regulatory Impact concerning modification of the regulations for the supply and use of natural gases, whose main goal is implementation of the law on natural gases and creation of preconditions for ensuring competition on the market of natural gases, but as long as there is *Gazprom* monopoly on the Moldovan market, competition on the domestic market of natural gases is impossible.

## ■ Information society

### MAJOR QUARTERLY DEVELOPMENTS

During the second quarter, the “Moldova ICT Summit 2013” took place with the participation of representatives of public institutions, foreign partners (such as the EU and the USA) and of the business community. At the event, the importance of the *Digital Moldova 2020* strategy was revealed: consolidation of the projects of public electronic services (such as E-CNAM (health insurance), E-CNAS (social insurance), E-Licensing, etc.). Also, during this period the action plan on implementation of the Government Service of Electronic Payments (MPay) was approved.

### IMPACT OF THE ACTION TAKEN

- *Digital Moldova 2020* is a document stipulating the main directions for information society development for the following 8 years. It consists of three main elements: (i) extension of access and connectivity by optimizing the ICT infrastructure; (ii) provision of digital content and accessible electronic public services; (iii) fortification of capacities of using ICT by actively exploiting of the benefits offered by information services. In the context of strategy implementation, all of the country’s towns and villages are to obtain access to the fixed broadband network.
- The action plan for the implementation of the Governmental Service of Electronic Payments (MPay) will contribute to attaining the objectives of implementing electronic payments for public services. Thus, citizens would be able to make payments faster. It will allow reducing the rate of delayed payments. The introduction of electronic payments will contribute to increasing transparency. It also helps combating corruption and reducing bureaucracy.

### MAIN PROBLEMS IDENTIFIED

- Although Moldova is one of the first 20 countries of the world with the highest average speed of Internet access (Net Index) and about 98% of the country’s communities have access to the 3G networks, this sector is still monopolized by the state-owned company *Moldtelecom*. Thus, due to *Moldtelecom*’s monopoly over the access infrastructure, competition on the telecommunications market is limited. It is in contradiction with the liberalization of the ICT sector, initiated by authorities in 2004.
- The Government has been speeding the process of transition to electronic payments. The emergency regime invoked by authorities reveals the fact that the process has been slow. At the same time, it indicates that there still is the risk of failing to meet the terms of achievement of objectives. Therefore, authorities are trying to avoid delay in the integration of all public structures, including state-owned companies, to electronic payments (MPay). The realization of this objective has been planned for the end of 2013.

## ■ Public health

### MAJOR QUARTERLY DEVELOPMENTS

Key developments in this field include production of the National Public Health Strategy for 2014-2020. Its draft is to be approved by the cabinet of ministers, and then it will be sent to the Parliament for adoption. The National Public Health Strategy consists of 8 chapters which describe the current situation of the health system and define problems in priority intervention areas, goals and objectives, the actions to be taken to reach objectives, including implementation steps. At the same time, a new Pulmonary Tuberculosis and Infections Council was inaugurated to determine disability and fitness for work. A political dialogue concerning the e-health program took place on 30 May 2013 with the participation of over 100 key representatives of national stakeholders, which contributed to progress in improving the National E-Health Strategy and became the final stage in its finalization. A draft law on organization and operation of the Board of Doctors of Moldova was developed by a group of Members of Parliament, but it caused broad discussions and disapproval from the representatives of the civil society working in the field. The current draft proposes the Board to be a professional organization of doctors that will monitor their work. Thus, doctors will have the obligation of joining this Board; otherwise, they will be unable to exercise their profession. At the same time, it proposes vesting the Board with the right to apply disciplinary sanctions on its members if the latter fail to comply with the legislation regulating the medical profession, rules of good professional practice, or the framework code of professional ethics. The draft is to be examined by the Parliament.

### EXPECTED IMPACT

- Completion and approval of the proposed National Strategy will contribute to improving this sector by enhancing efficiency and consolidating the public health surveillance systems. The development of a detailed action plan for strategy implementation with clearly outlined responsibilities and necessary implementation terms for the proposed activities, including provision of an efficient mechanism for monitoring correct and timely implementation of the relevant actions, will lead to expected results, i.e. timely identification of health problems, and the medical system will receive valid relevant information in time to make decisions and undertake actions in the public health sector. At the same time, it will contribute to strengthening the national system of prevention, preparation, and response in public health emergencies; ensuring health protection by enhancing the efficiency of behavior and environment risk factors control; and improving interdepartmental collaboration mechanisms with clearly defined responsibilities.
- The inauguration of specialized councils for the determination of disability and fitness for work will contribute to facilitating the process of identifying the degree of disability and fitness for work for the persons affected by various diseases and conditions for a definite or indefinite period of time. The promotion of these reforms is also a commitment that our country assumed by ratifying the UN Convention on the Rights of Persons with Disabilities.
- The above-mentioned political dialogue identified feasible short- and long-term electronic solutions to enhance access to medical services and efficiency and quality of health services. Together, stakeholders and international experts developed a number of recommendations that would serve as basis for finalizing the e-health strategy and for performing additional political actions and investments needed in this field.
- The organization of the workshop and political dialogue concerning labor remuneration depending on performance, known as P4P (pay for performance), gave national decision makers a general view of the current state of P4P development in primary medical care and contributed to the exchange of best practices of European health systems, focusing on the lessons and perspectives relevant for Moldova. Experts from Great Britain, Spain, and Estonia shared their countries' experience in financial encouragement of performance and performance indicators for health and motivation in primary medical care. The conclusions and recommendations of the political dialogue will serve as basis for the additional political actions at country level.
- On 10 July 2013, it was approved to initiate negotiations concerning two agreements on collaboration in the field of health and medical science with the Ministry of Social Affairs and Health of Finland and with the Ministry of Health of Lithuania. The conclusion of these agreements will contribute to developing collaboration in this field and to an exchange of experience with these two countries.

### MAIN PROBLEMS IDENTIFIED

- The health indices of the Moldovan population continue worsening, life expectancy at birth (69.13 years) being one of the lowest in Europe, and the mortality index is still high, placing Moldova among the countries with the highest mortality rates.
- The exodus of medical workers has been increasing lately, which creates great difficulties in organizing and conducting prophylactic and anti-epidemic measures in the territory. The republican anti-epidemic basis does not cover the needs in cases of emergency and epidemiologic deterioration.
- Public health institutions are insufficiently supplied with medical equipment. The sanitary-hygienic and sanitary-technical situation of some medical institutions is unsatisfactory and the working conditions are inadequate, which leads to professional diseases and to a high rate of diseases with temporary loss of working capacity, including among the medical personnel.
- The involvement of primary medical institutions and other medical institutions in health promotion is insufficient. The activities performed by the health centers and family doctors' centers are now sporadic and inconsistent, which does not give high-impact results.