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‘Implementation of the European Neighbourhood Policy in 2007’

Progress Report Moldova

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1. BACKGROUND AND OVERALL ASSESSMENT

The Republic of Moldova and the EU first established contractual relations in 1994 through a Partnership and Cooperation Agreement (PCA), which entered into force in 1998. On this basis, the EU-Moldova ENP Action Plan was adopted in February 2005 for a period of three years. Since then, its implementation has been guided and monitored on the basis of annual implementation tools, which set out comprehensive yearly sets of priorities and timelines, based on the priorities agreed jointly by the EU and the Republic of Moldova. A first progress report was adopted in December 2006. In addition, evaluations have been carried out in November 2005, March 2006 and May 2007 on the EU side and in spring 2006, autumn 2006, spring 2007 and November 2007 on the Moldovan side.

Intensive cooperation including through the EU–Moldova Cooperation Council, the EU–Moldova Cooperation Committee and four sub-committees has enabled both sides to progress with the implementation of the Action Plan.

This document reports on overall progress made on the implementation of the EU – Republic of Moldova ENP Action Plan between 1 November 2006 and 31 December 2007 although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in the Republic of Moldova.

The Republic of Moldova made good progress in most areas during the reporting period. The 2007 local elections were generally well administered and voters were offered a genuine choice. Other major achievements during the reporting period were substantial progress in improving the institutional fr0.6404.

reviewing existing legislation to ensure the independence and impartiality of the judiciary, including the prosecution; and ensuring the effectiveness of the fight against corruption.

Local **elections** took place in June 2007. OSCE/ODIHR deployed an election observation mission which noted that the elections were generally well administered and that voters were offered a genuine choice. Shortcomings were observed regarding the right of citizens to seek public office and equitable media access for all candidates. Further pursuit of Action Plan objectives in this respect will require that planned revisions to the electoral code take full account of the recommendations of the Council of Europe and OSCE/ODIHR in order to ensure effective democracy. The draft law forbidding persons with dual nationality to hold public functions was sent for screening to the Council of Europe. Furthermore, a law on political parties was adopted in December 2007.

Legislation on **parliamentary reform** (rules of procedures and parliamentary immunity) was adopted in December 2006 in line with the recommendations of the Parliamentary Assembly of the Council of Europe (PACE). In December 2007, Parliament adopted in final reading a new law on political parties, which takes into account some recommendations of the OSCE/ODIHR and the Council of Europe. On **local self-government** a number of legislative acts, including on administrative decentralisation, local public administration and regional development, were adopted in December 2006. This brought national legislation closer to the recommendations of the Congress of Local and Regional Authorities in Europe. A national training strategy was adopted in January 2007 to enhance professional standards for public servants and elected municipal officials. The practical impact of these measures remains limited to date. The Republic of Moldova adopted a comprehensive strategy and implementation plan for reforming its **judicial system**. The capacities of the Supreme Council of Magistracy (the body in charge of judicial self-administration) were consolidated and a Department for Judicial Administration, subordinated to the Ministry of Justice, was created and started operating in January 2008. The National Institute of Justice was established and started its training operations in October 2007. The code of ethics for judges was approved in November 2007 and a judicial inspection system under the aegis of the Supreme Council of Magistracy was introduced by law in July 2007.

The further pursuit of Action Plan objectives in the area of judicial reform will require ensuring the full implementation of the above measures in practice as well as further enhancement of the capacities of the judicial administration. Training for judges and prosecutors, including in the field of human rights, requires further strengthening. The reform of the prosecutorial office including the General Prosecutor's Office to ensure its independence and introducing proper checks and balances with regard to its competences, in accordance with European standards, remains to be addressed. Draft legislation regarding the reform of the prosecutorial office, as it stood in autumn 2007, goes in the right direction.

The National Action Plan on fighting corruption 2007-2009 was adopted in December 2006 and amended at the end of 2007. The Centre for Combating Corruption and Economic Crimes is the main government agency responsible for fighting corruption. The Republic of Moldova ratified the UN Convention against Corruption in October 2007 and the additional protocol to the Council of Europe Criminal Law Convention in August 2007. The Republic of Moldova took some steps in this area to adjust its legislative framework to international standards (e.g. subjecting new laws to anti-corruption screening before their adoption, although this does not yet always happen in practice) and to strengthen its institutional framework. The Republic of Moldova also undertook certain activities in the fields of preventing corruption and raising awareness on corruption-related phenomena.

Achievement of Action Plan objectives will require that the Republic of Moldova implement the anti-corruption strategy and action plan as well as the recommendations of the Group of States against Corruption (GRECO) of the Council of Europe, and that the Centre for Combating Corruption and Economic Crime is able to operate efficiently and independently from political influence in line with its original purpose of fighting corruption. Cooperation with civil society should be further intensified.

Human rights and fundamental freedoms

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

The national **human rights** action plan 2004-2008 is under implementation. In January 2008 the Republic of Moldova ratified the First Optional Protocol to the International Covenant on Civil and Political Rights. In July 2007, the Moldovan Parliament approved declarations under Article 21 and 22 of the UN Convention Against Torture that inter alia will enable individuals to submit complaints to the UN Committee Against Torture. In April 2007, the Republic of Moldova ratified the Optional Protocol to the UN Convention on the Rights of the Child, on the sale of children, child prostitution and child pornography. In March 2007, the Republic of Moldova signed the UN Convention on the Rights of Persons with Disabilities.

The Republic of Moldova has started work on comprehensive **anti-discrimination** legislation. The law on religious cults was adopted in May 2007. Achievement of Action Plan objectives will now require that **freedom of religion** is ensured in practice and that relevant judgments of the European Courts of Human Rights (ECHR) are fully respected. In December 2006, the government adopted the Action plan to support the **Roma population** for the period 2007-2010, albeit with limited practical impact to date.

The Republic of Moldova has taken a number of measures to ensure the implementation of judgments of the European Court of Human Rights (ECHR), but efforts are required for the further pursuit of this Action Plan objective.

To strengthen pre- and non-judicial mechanisms for dispute settlement and the protection of human rights, the Republic of Moldova adopted in June 2007 the law on mediation establishing an alternative mechanism of voluntarily solving civil and criminal cases between parties and setting rules for the status of professional mediators. The law will enter into force on 1 July 2008. In July 2007, the law on state guaranteed legal aid was adopted.

As regards the fight against **trafficking in human beings**, efforts were made to amend the criminal code to reinforce sanctions and liability (amendments adopted in May 2007) and to encourage the development of special law enforcement units. In addition, discussions continue on the organisation of a tri-lateral seminar on human trafficking with the EU and Israel under TAIEX. Further action is required to prosecute traffickers and investigate crimes as well as to assist and protect victims.

The Republic of Moldova co-operated with the Council of Europe's Committee for the **Prevention of Torture** and undertook efforts to implement its recommendations and to improve prison conditions. Further pursuit of Action Plan objectives will require increased vigilance from judges, prosecutors and senior police officers, absolute non-tolerance of ill-treatment and torture, and strengthened safeguards against ill-treatment. The National Preventive Mechanism, which is being established under the Optional Protocol to the UN Convention Against Torture (OPCAT), will need to be fully independent and effective.

The Republic of Moldova adopted a national strategy on residential **child care system reform** for the years 2007-2012 as well as a programme of rehabilitation and social integration of **disabled people**. These programmes are not yet implemented due to a lack of financial resources.

The Republic of Moldova continued its efforts towards the promotion of **women's** participation in political and socio-economic life. The number of women elected as mayors has grown from 16 % after the 2003 local elections to 19 % after the June 2007 elections. There are still reported cases of domestic violence, and the law on prevention of domestic violence, adopted by the Parliament in March 2007, remains yet to be promulgated. The implementation of the law on equal chances for women and men (February 2006) and of the related national action plan (August 2006) has been slow.

The **broadcasting** law that was adopted in July 2006 provides a good legislative basis to ensure respect for the freedom of expression. Its correct implementation in a manner which

targeted regional cooperation under activities of the South-East Europe Cooperation Process and Regional Cooperation Council and other relevant regional organisations.

The Republic of Moldova actively co-operated with the EU on regional and international issues and aligned itself with nearly all EU CFSP declarations open for alignment.

The Republic of Moldova took steps to co-operate with the EU in the area of international arms transfer controls and small arms and light weapons control. In November 2007 a national commission for monitoring over arms control and disarmament was established, in order to implement the association to the EU Code of Conduct on Arms Export Control, including criteria interpretation; the association to the EU strategy to combat illicit accumulation and trafficking of SALW and their ammunition, the association to the EU strategy on weapons of mass destruction and the elaboration of the national strategies in the field SALW and conventional weapons control.

Regional cooperation

The Republic of Moldova is an active member of the Central European Initiative (CEI) and the South-East European Cooperation Process (SEECP) and Regional Cooperation Council (RCC). The Republic of Moldova signed the new CEFTA (Central European Free Trade Area) Agreement in December 2006.

Cooperation for the settlement of the Transnistria conflict

The Republic of Moldova co-operated closely with the EU on all questions related to the Transnistria settlement efforts, notwithstanding that formal settlement talks in the so-called 5+2 format (comprising the OSCE, Russia, Ukraine, the two sides and, as observers, the EU and the U.S) are stalled since February 2006. President Voronin made proposals for confidence-building measures in a wide range of sectors in autumn 2007. Work to put these in practice is ongoing.

The Republic of Moldova amended its legislation making it possible for economic operators from Transnistria, both with permanent and temporary registration, to register in Chisinau and work on the basis of Moldovan laws and regulations, thereby benefiting from access to international and EU trade preferences. The Republic of Moldova and Ukraine continued to implement the so-called New Customs Regime based on the Joint Declaration of the Moldovan and Ukrainian Prime Ministers of December 2005.

EU Border Assistance Mission to Moldova and Ukraine (EUBAM)

Following a joint request from the Moldovan and Ukrainian Presidents, the EU Border Assistance Mission to Moldova and Ukraine (EUBAM) is in place since December 2005. EUBAM operations are based on a Memorandum of Understanding signed between the governments of the Republic of Moldova and Ukraine and the European Commission. It has been agreed between the parties to extend the mandate of the EUBAM until end November 2009.

The Republic of Moldova continued to be fully committed to the work of EUBAM and co-operated actively with the EUBAM and Ukraine. With the support of EUBAM professional capacities of the Moldovan and Ukrainian customs and border guard services were enhanced and inter-agency cooperation within the Republic of Moldova as well as between the Republic of Moldova and Ukraine was increased. To totally achieve the Action Plan objectives,

continued efforts are required to fully implement EUBAM recommendations and the Agreement on Information Exchange with Ukraine, which was signed in Brussels in November 2006.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning of the market economy

After a slowdown in 2006, GDP **growth** exceeded 8 % in the first half of 2007. Following the summer 2007 drought that resulted in a substantial decline of agricultural output, growth slowed down and for 2007 as a whole is likely to be around 3 %, lower than in 2006 (4.8 %). GDP growth was concentrated in the services sectors, while the output of the tradables sectors (industry and agriculture) contracted.

The Republic of Moldova's economy remains dependent on the external environment and in particular on external financing. Remittances are at least one third of the GDP but the trade deficit is even larger – close to 50 % of GDP in the first eleven months of 2007. The **current account deficit** approaches 10 % of GDP but seems sustainable in the short run as capital inflows, in the form of foreign direct investment (FDI) or short-term credits are well in excess of this amount. The **budget deficit** last year was lower than planned reflecting stronger-than expected revenue performance and fiscal restraint.

Double-digit **inflation** persisted, despite the gradual shift of the National Bank of Moldova towards inflation targeting and supportive fiscal policy.

Monetary policy will remain central to the efforts to consolidate macroeconomic stability. The fiscal policy is called to continue supporting the disinflation efforts of the National Bank. At the same time, the budget is expected to play a bigger role in the stimulation of economic and social reforms through a more efficient government spending and an increased allocation for public investments. The government's expectations are that progress in **structural reforms** supported by the increased budget allocations for the development of market institutions will improve the business climate. Some progress has already been achieved, but the perception of the business environment in the Republic of Moldova is still perceived as not conducive to attracting large investments.

Employment and social policy

In May 2007, the government approved a national strategy on the policies for the period of 2007 – 2015. The strategy aims at improving the situation on the labour market, decreasing of unemployment, increasing the quality of labour productivity with a view of further social cohesion and integration. A unified information system of the labour market was also set up, and a study on employment in rural areas was conducted in September 2007. A slight decrease of unemployment can be reported. The government prepared a draft law on security and health at service as a response to the high number of work accidents. Effective implementation will require both reorganisation and reinforcement of the administrative capacity of the labour inspectorate.

While the national employment strategy contains a chapter on **social dialogue**, there is no mechanism for consultations with social partners and non-governmental entities in view of assessing the current situation and identify key challenges and policy responses. The two

main union federations merged into a common body, the national confederation of Moldovan unions, gathering 720 000 members. The capacity of this new structure to defend the interests of the workers will depend on the degree to which it will remain independent.

In the area of **social protection**, the government continued to increase allocations for social expenditures such as pensions and introduced minimal standards for care, education and socialisation of children from resident-type institutions. A law on social assistance, which would change the assistance system from being category-based to being income-based, was approved by the government, but still remains to be adopted by the Parliament.

Poverty reduction remains a challenge for the Republic of Moldova: according to the last available figure (2006) 26 % of the population were living below poverty line. The authorities approved in December 2007 a comprehensive national development plan for the years 2008-2011 which builds on and replaces the economic growth and poverty reduction strategy paper. Implementation of the plan will require focus on concrete benchmarks and appropriate financial and human resources. The Ministry of Social Protection, Family and Child was established in March 2007 with responsibility for formulating policy in the areas of social protection, social assistance and child care.

No progress is registered regarding the implementation of a long-term strategy on **sustainable development**.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Trade policies

Bilateral **trade** in goods between the EU and the Republic of Moldova grew significantly in 2007. Imports from the Republic of Moldova increased by 40.8 % and exports by 26.3% compared to 2006. Nevertheless, the Republic of Moldova's exports to the EU remain rather limited and non-diversified. The importance of the EU as a trade partner of the Republic of Moldova grew, mainly due to Romania's accession to the EU, thus strengthening the EU's position as the first trading partner of the Republic of Moldova. Furthermore, the fact that the Republic of Moldova benefits from the EU GSP+ scheme cushioned to a large degree any negative impact of EU enlargement on trade flows. The severe drought which hit the country in the summer of 2007 inflicted serious damage to the agricultural sector but did not impede growth in trade. In order to promote Moldovan exports, several events were organised by the Moldovan Export Promotion Organisation, in particular in the areas of wine and spirits, agri-food and apparel and textile sectors, as well as the information and communication technology sector (ICT).

As of July 2007 the **Customs Service** started issuing preferential certificates of origin for goods exported to CEFTA countries and, as of January 2008, to CIS countries - thus becoming the only authority in charge of issuing preferential certificates of origin in the Republic of Moldova. Following several modifications of the Moldovan legislation in 2007, Transnistrian companies can now request to the Moldovan authorities preferential and non-preferential certificates of origin for export.

In 2007 the European Commission services concluded that the Republic of Moldova had reached a sufficient level of progress in improving its institutional framework and system of controls and certification of origin of goods to meet the formal requirements for receiving **additional Autonomous Trade Preferences (ATPs)** from the EU, as foreseen in the Action

Plan. The Council Regulation introducing additional ATPs to the Republic of Moldova was adopted in January 2008 and applies as of March 2008. Through the Regulation the Republic of Moldova is committed to continue to apply the internationally agreed standards on social and environmental issues. This was a precondition for benefiting from the GSP+ scheme, and these conditions have been transferred to the Regulation on Autonomous Trade Preferences which replaces the GSP+.

Several drafts for amendments to the **customs** code are in different stages of preparation, including provisions on protection of intellectual property rights. The Republic of Moldova did not yet adopt the Combined Nomenclature. A division in charge of tariff classification was established within the Central Office of the Customs Service and efforts are necessary to make it fully operational. In order to monitor the implementation of the customs ethics policy, a Commission for Ethical Behaviour was established and measures on integrity as well as on the conditions for competitive recruitment of staff were approved. The Customs Service continued development of its IT system, including the introduction of new modules in the ASYCUDA World system, such as the ones on transit and on rules of origin. The Republic of Moldova is also working on the concept of one-stop-shop. Some delay was registered in the implementation by the Moldovan Customs Services of the November 2006 agreements with the Customs Service of Ukraine. To achieve the objectives of the Action Plan in this area, the exchanges of information with the Ukrainian Customs Service will need to be improved and relations between the Customs Service and business enhanced by reinforcing the Customs Consultative Committee. To facilitate legitimate trade, the implementation of a risk-based enforcement system should be strengthened and actions taken to implement the one-stop-shop concept¹.

On free **movement of goods and technical regulations** the Republic of Moldova pursued its efforts towards starting the preparation of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). The standardisation and metrology service focused its activity on harmonisation of the national legislative framework with EU horizontal legislation. Several laws were adopted, including on technical regulation activity, on amending the law on standardisation - aimed at ensuring the transition from mandatory to voluntary application of standards - and on general safety of products. These laws also provide for the reinforcement of the institutional capacity in the fields of standardisation, accreditation, conformity assessment metrology and market surveillance. Responsibilities between the different ministries involved still overlap, in particular between the ministry of agriculture and the ministry of health. Market surveillance requires further improvement. The responsibilities and obligations of the Moldovan inspectorates are not clearly assigned. Laboratories are not sufficiently equipped with modern equipment to provide adequate laboratory testing in the field of market surveillance. Transposition of harmonised standards continued although at a slower pace than envisaged.

Regarding **sanitary and phyto-sanitary issues**, the Republic of Moldova pursued implementation of an animal health and food safety action plan, developed following the European Commission's Food and Veterinary Office 2005 inspection visit. The Republic of Moldova took further steps to align with EU standards inter alia as regards hygiene rules in the food processing industry and animal identification. Outside the reporting period, in March 2008, the Parliament adopted the new veterinary law. The Republic of Moldova strengthened its laboratory capacity. The EU re-included the Republic of Moldova in the list of countries

¹ An interdepartmental Commission was set up to this end.

authorised to export honey. The Republic of Moldova participated in workshops under the European Commission's "Better training for safer food" programme. Considerable efforts are still needed throughout the sector to further advance on sanitary and phyto-sanitary issues.

While the Republic of Moldova recorded in 2007 an increase of foreign direct investments, there are still barriers to **establishment**, in particular due to the heavy and sometimes arbitrary administrative requirements and controls imposed on investors. The swift adoption of the "guillotine II law", the full implementation of the corporate governance code as well as of the August 2007 law on joint stock companies should contribute to improve the situation and further approximate with EC legislation. No comprehensive law covering all legal forms of business activities does yet exist.

Legislation such as the law on limited liability companies, which maintains the minimum registered capital of societies at the level of 5 400 lei, was adopted in the area of **company law** and contributed to improving the **business climate**. The law on state registration of legal entities and individual enterprises was adopted. It essentially simplifies the procedure of registration in the State Register. To fully align with EU rules on disclosure of companies' information and to ensure a more predictable and transparent business climate, further efforts would be required. Limitations to acquisition of land property and heavy bureaucracy are a disincentive to inward investment.

In the area of **services**, the Republic of Moldova took important steps regarding the supervisory framework in the field of financial services. The Republic of Moldova continued to implement the recommendations of the IMF's Financial Sector Assessment Programme (FSAP), but does not yet fully comply with them. The legislative framework that regulates the banking capital requirements was revised to meet EU standards. Some progress in the area of administrative capacity building was achieved with the setting up of a new central authority as a result of the merger of the National Securities Commission with the National Commission of the Financial Market as the existing authority in the insurance field, which is responsible for the regulation and supervision in these sectors. Progress was made in the insurance sector with the adoption of two new laws, the law on insurance and the law on motor-vehicle third party liability insurance. Despite the adoption of these basic insurance laws and drafting of several acts aiming at regulating and stimulating the activity of professional participants of the insurance market there has been a limited progress on the establishment of the appropriate normative framework.

As regards **movement of capital and current payments**, the exchange rate is fully convertible for current account purposes. There are no restrictions on the free movement of capital related to direct investment made in companies in the Republic of Moldova and the repatriation of profits.

As regards **free movement of persons**, Moldova has elaborated a draft law for migrant workers. It has also taken initial steps to negotiate agreements with a number of Member States on the coordination of social security.

Other key issues

In 2007 the Republic of Moldova took several measures to implement the 2006-2010 Strategy for the development of the tax service, such as the setting up of a division for combating tax fraud and the strengthening of the work of the large taxpayers division. The creation of a

Single Information Assistance Centre for Taxpayers and of a web-site² are part of the measures directed to improve service to taxpayers and improve the use of information technologies. Moreover, the Republic of Moldova introduced new thresholds as well as new procedures for VAT registration. Stricter penalties are also applicable for tax purposes. In April 2007 several amendments to the existing taxation legislation were approved. The Republic of Moldova introduced a 0 % corporate income tax on undistributed income as from 1 January 2008 and abolished all other investment incentives. Moreover, a possibility for capital legalisation will remain open until 3 December 2008 and a fiscal amnesty for tax liabilities from before January 2007 was decided. Concerning the implementation of the principles of the code of conduct for business taxation, the Republic of Moldova started a self-assessment of the national tax measures in order to detect possible harmful measures. The discussion on this issue will have to be pursued. A study of the international fiscal legislation in the field of VAT refund to the non residents was also launched. With the entry into force of one additional agreement in November 2006, the Republic of Moldova has now double taxation agreements with 15 EU Member States.

There was good progress on **competition policy** through the establishment of the National Agency for the Protection of Competition as an independent authority (NAPC) in February 2007. It is empowered to initiate investigations on its own initiative or upon complaint. A number of investigations were carried out in 2007 but to be fully operational the NAPC would require additional budgetary means and trained personnel. The NAPC paid special attention to state aid issues; a draft law on state aid which stipulates the methods of authorisation, control, inventory, monitoring and reporting of the state aid is being prepared. According to this draft, the NAPC will be the only responsible institution in this field.

The Republic of Moldova's legislation in the area of **intellectual property rights** progressed and was further completed with the entry into force in December 2007 of the law on industrial design. A number of amendments to current legislation and by-laws still remain to be adopted to fully meet the requirements of the ENP Action Plan. The Republic of Moldova has, in line with the provisions of the Action Plan, finalised its first study on piracy and counterfeiting which contains recommendations on further legislative approximation, awareness-raising and increased cooperation among all enforcement bodies. This study should pave the way for a wider national campaign for fighting counterfeiting and piracy. Penal sanctions for infringing industrial property rights are in force. The electronic register of right-holders has been finalised. The Republic of Moldova is negotiating a memorandum of understanding with the European Patent Office to include technical cooperation on patent documentation and professional training. However, effective implementation and enforcement of the IPR legislation, including at court level, is still a challenge and only limited progress can be noted in this respect. Therefore, further training of IPR enforcement agents (i.e. police, customs, judges), a clarification of the responsibilities of all the governmental bodies involved in IPR, reliable statistical data and awareness-raising activities among the stakeholders are needed.

Further progress was made with the entry into force in October 2007 of the new law on **public of**

of Moldova also took positive steps towards e-procurement with the opening in January 2008 of a free public procurement portal. The Republic of Moldova is not yet party to the WTO Agreement on Public Procurement.

The Republic of Moldova has continued to approximate its legislation on **statistics** with EU standards. A global assessment of the national statistical system was concluded in January 2007. On this basis, the strategy for the national statistics development (2008-2011) was developed, which places sustainability and wide dissemination of statistics as its core priorities. Work is on-going to prepare the legislative framework to conduct the 2010 population census.

The government adopted a strategy on the development of **public internal financial control** (PIFC) in January 2008. A central harmonisation unit, responsible for the development and harmonisation of the elements of PIFC throughout the entire public sector, was established. With the support of technical assistance, a code of ethics for internal audit, an internal audit charter and internal audit standards were produced.

Progress can be noted in the field of **audit and accounting** with the entry into force in January 2008 of new laws which contribute to bringing legislation closer into line with EU standards.

On **enterprise policy**, a national strategy for the years 2006–2008, concerning the facilitation of the development of Small and Medium Enterprises (SME) was adopted. Also, the draft law on “adjusting the national legislative framework to the Law regarding the support of the SME sector” was finalised. In 2007 the Organisation for the Development of the SME was set up in order to implement the strategies and assistance programmes for the development of the SME. Efforts should be continued in order to reduce administrative requirements and reduce registration cost.

The Republic of Moldova made good progress in the field of **consumer policy** with the adoption in November 2007 of a wide and comprehensive national strategy for the years 2008-2012. It encourages the empowerment of consumers and protects their legitimate economic interests.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The Republic of Moldova and the EC concluded Visa Facilitation and **Readmission Agreements** which entered into force on 1 January 2008. A Common Visa Application Centre under Hungarian leadership was opened in Chisinau in April 2007. In addition to Hungary, Austria, Slovenia, Latvia and Denmark are currently participating in the Centre; several other Member States are expected to join in 2008.

The Republic of Moldova amended its national action programme on **migration and asylum** in December 2006 and is working towards implementing the Council of Europe Convention on the Legal Status of Migrant Workers. In January 2007, the Moldovan government adopted a decision on the creation of an integrated inter-agency information system on the coordination of migration flows. The Republic of Moldova updated its asylum legislation, including provisions for humanitarian protection, and is undertaking efforts to finalise work on appropriate reception centres for illegal migrants.

The Republic of Moldova and the EU have started discussions on a **pilot mobility partnership**.

In the area of **border management**, the new border guard law was adopted in September 2007 coinciding with the opening of the national border guards college. A protocol on the simplification of cross-border contacts with Ukraine entered into force in February 2007 while cooperation continued actively with EUBAM. The border guards and customs worked efficiently to combat illegal cross-border activities using modern equipment as well new searching techniques but communication and cooperation in exchanging information needs to be improved between local border guard units and regional and central levels. Inter-agency cooperation needs to be improved in the context of implementing an integrated border management system.

In the context of ongoing efforts to tackle **human trafficking**, a new national referral system for victims of human trafficking was established in five pilot regions. A national action plan on anti-trafficking (2007-2009) was set up with the National Committee on Anti-trafficking ensuring full implementation. Cooperation with civil society in this area needs to be consolidated in order to prevent trafficking and provide rehabilitation assistance to its victims. In addition, several operations on the prevention of trafficking in human beings as well on combating organised crime were organised but further actions are needed to increase the effectiveness of border crossing checkpoints. Outside the reporting period, in February 2008, the European Convention for Combating Human Trafficking entered into force. The Republic of Moldova had been the first country to ratify the Convention in May 2006.

An action plan on “fighting the use of **drugs** and drug business” for the years 2007-2009 was adopted in March 2007. Further implementation is however needed. Implementation of the national drugs strategy continues to be hampered by lack of trained human resources, financial means and technical equipment. Inter-agency cooperation needs to be intensified both nationally and regionally in order to effectively combat drug trafficking.

A new anti-**money laundering** law, aimed at approximating European legislation and in line with FATF recommendations and the Council of Europe’s Moneyval group conclusions, was adopted in May 2007 and a law to enable ratification of the Council of Europe’s Convention on money laundering was subsequently adopted in July 2007. A national strategy and action plan to combat money laundering and terrorism financing were also adopted. However, further attention and resources need to be invested in implementing these reforms. In April 2007, the Republic of Moldova adopted a law introducing capital legislation and tax amnesty measures that raised concerns regarding its possible impact on the money-laundering system. implementing measures adopted by the National Bank following consultations with the international community, including with the European Commission and the Council of Europe’s Moneyval Committee. Their impact for the mitigation of risks remains to be assessed.

The Söderköping Process will be continued for the period of 2009-2012 but further attention needs to be given to the enhancement of the regional and international cooperation as well of the exchange of information on border and migration management within the Process.

In the area of **police and judicial cooperation**, in December 2006, the Parliament adopted the law on international legal assistance in penal matters. A Strategic Cooperation Agreement with Europol was signed in February 2007 while negotiations continue on the terms of the Operational Agreement. A contact point for Eurojust was appointed in September 2007 within

the Ministry of the Interior while legislation to enable ratification of the Council of Europe's Convention on Personal Data Protection is still pending. A guide on judicial cooperation with EU Member States was published.

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

The Republic of Moldova has finalised a national development strategy covering all modes of **transport** and finalised its land transport infrastructure strategy in December 2007, including a ten year investment and expenditure plan. The overall focus of the strategy is on the rehabilitation and upgrading of the existing road and rail infrastructure, the setting up of adequate funding mechanisms for urban transport activities as well as for road maintenance and repairs. To fully achieve the Action Plan objectives, the administrative capacity will need to be strengthened, the planned introduction of axle load control needs to be pursued and measures to improve road safety need to be taken.

The rail sector benefits from the planned upgrading and from the construction of a new rail link, reflecting a multimodal approach to freight transport by linking the national rail network to the inland waterway port at Giurgiulesti.

Alignment with relevant maritime safety regulations is ongoing and an approved "security plan for the international free Giurgiulesti Port" is being implemented.

The Republic of Moldova adopted a draft strategy for civil aviation development for the years 2007-2012 in August 2007 as well as important aviation safety laws. The Republic of Moldova became a full member of the Joint Aviation Authorities from January 2008. The Republic of Moldova should continue to strengthen the close oversight over its carriers and increase its efforts to implement EU standards in the field of aviation safety. The Moldovan Aviation Administration needs to strengthen its administrative capacity also to prepare for the participation in the Common Aviation Area by 2010.

The Republic of Moldova and the EU substantially increased **energy** cooperation, in particular in the context of the adoption by the Republic of Moldova, in August 2007, of a new energy strategy for the period until 2020. The strategy, which aims at gradual convergence with EU policy and rules, highlights, inter alia, the Republic of Moldova's increasing role as transit country for the EU after the recent EU enlargement. The Republic of Moldova's challenge is to fully implement the strategy and to find (private and public) financial means for the necessary investments identified in the strategy. The European Commission organised technical meetings with potential donors to discuss and advance the strategy's implementation. The Republic of Moldova strengthened energy monitoring and forecasting capacities. The Energy Community initiated the process of the Republic of Moldova's accession to the Energy Community Treaty, which entails progressive convergence with the internal energy market standards. The National Energy Regulatory Agency, which is being strengthened, increased electricity tariffs and adopted a new tariff methodology. Further progress on development and implementation of the methodology is needed. It is key that tariffs be transparent and at sufficient level to cover costs and obtain appropriate return on investments. Debts in the energy sector need to be addressed.

The UCTE (Interconnected Electricity Networks of Continental Europe) established a working group, following the Republic of Moldova's and Ukraine's joint application for membership. The group will consider the required measures for synchronous operation of the

Moldovan and Ukrainian electricity networks with UCTE networks. This process further advances integration with the internal energy market.

Since the Republic of Moldova is dependent on energy imports, it should clearly define its priorities regarding the increase of generation as well as import and export transmission capacity. In this context it is recalled that the large Ciucurgan power plant, owned by Russian RAO/UES, is located in Transnistria. The Republic of Moldova continued to reduce network losses. It pursued the extension of gas supplies to the entire country. The Republic of Moldova took measures for a better use of renewable energy including by the adoption of a law. The National Agency for Energy Conservation was transformed into the Energy Efficiency Agency, which is also competent for renewable energy. Considerable supplementary efforts are needed in this area. The Republic of Moldova established the National Agency for Management of Nuclear and Radiological Activities.

Regional dialogue continued through the “Baku Initiative” for EU-Black Sea/Caspian energy cooperation. Under this initiative ministers agreed a roadmap aiming at market convergence, security of supply, sustainable energy development and regional cooperation.

Key **environment** issues concern threats related to climate change, air quality, water quality, waste management and nature protection. The Republic of Moldova made further progress on climate change. A second national communication, a greenhouse gas inventory and an adaptation plan are under preparation. Altogether six Clean Development Mechanism (CDM) projects have been prepared, of which three have so far been registered at the UN level. The Republic of Moldova participates actively in the Danube - Black Sea Task Force (DABLAS). However, none of the 50 priority DABLAS investments any longer concern the Republic of Moldova. It also participates in activities undertaken under the EU Water Initiative, including a national policy dialogue.

The Republic of Moldova plans to review its 2001 national concept of environmental policy. A national programme on environmental security, a strategy on water supply and sewerage systems in settlements as well as a waste management concept were adopted in 2007. The Republic of Moldova took first steps to consider the preparation of a waste management strategy for 2009-2011. Work is ongoing to implement existing strategies and plans, but continued attention is required. Overall, framework legislation and sectoral legislation is in place in many areas, but require further development. A proposal to review the 1993 framework law was prepared. Latest legislation includes new or amended laws on nature protection, zoological gardens, ozone layer, plant protection, water, animal protection, and fishing fund. New legislation on strategic environmental impact assessments, nature protection and pet animals is under preparation. The Republic of Moldova has taken steps to revise its convergence plan.

In December 2007, a governmental decision was adopted to strengthen the Ministry of Environment and Natural Resources, and a strategic plan is under development. The State Environmental Inspectorate is being reorganized. The Republic of Moldova plans to establish a centre for integrated environmental monitoring. A major challenge continues however to be to further strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. The Ministry of Environment and Natural Resources has recently recruited new officials, however still requires increased staffing. There are ongoing activities to integrate environment considerations into other policy sectors such as transport. Monitoring as well as enforcement require special attention. The Republic of Moldova continues to publish environmental information on a regular basis, such as reports

on state-of-the environment (2007) and carries out some activities to inform and involve the public, even if the requirements of the Aarhus Convention continue not to be fully incorporated into legislation. As regards environmental impact assessment, progress is limited as EIA is mainly applied to donor-funded projects.

The Republic of Moldova has ratified relevant international and regional conventions and protocols, except the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context and the Protocol to Abate Acidification, Eutrophication and Ground-level Ozone to the UNECE Convention on Long-Range Trans-boundary Air Pollution. The Republic of Moldova participates actively in the International Commission for the Protection of the Danube River. It signed in December 2007 a joint Declaration with Romania and Ukraine to co-operate more closely to achieve a good ecological status of the Danube delta aiming at the objectives of the EU water framework Directive, and to prepare a Danube Delta Analysis Report in 2008. The agreement with Ukraine on use and protection of water resources within the Dniester River has been revised, but not yet formally adopted. The European Commission and the Republic of Moldova have further enhanced cooperation and information exchange, including on climate change, horizontal legislation, water, waste, trade in endangered species, Black Sea environmental collaboration as well as sustainable integrated land use of Eurasian Steppes. Other topics such as a possible twinning project to promote strategic approaches on environment have been identified for possible closer cooperation. The Republic of Moldova Regional Environment Centre continues to promote capacity-building and cooperation between various stakeholders, including between neighbouring countries.

As regards support to **Research and Innovation** activities, the presently still rather modest volume of investment in science and innovation (0.35 % of the gross domestic product (GDP)) is due to be increased by 2009 to 1 % of GDP. The human and material resources of the research sector are concentrated on solving priority problems related to the development of technologies and national economy and acceleration of the processes of integration with the European and world scientific community (in six strategic areas).

Moldova will need to take full advantage of ongoing regional cooperation activities in order to better integrate into the 7th Research Framework Programme. The objective of cooperation will be to develop scientific and technological cooperative activities in the most promising areas of cooperation for the region, such as those dealing with the well-being of its societies (Food Biotechnology, Health) and those dealing with global issues such as climate change, environment, energy efficiency and renewable energies.

In the area of **information society**, the Republic of Moldova adopted a law on electronic communications that was promulgated outside the reporting period in March 2008. It will provide the basis for the elaboration of a national policy for electronic communications and the implementation of a comprehensive regulatory framework by the National Agency for Regulation in Telecommunications and Informatics (ANRTI). The law will encourage market entry by replacing the current individual licensing procedure with a general authorisation regime and will promote fair competition by enabling the ANRTI to designate operators with significant market power and impose specific obligations. During 2007, the ANRTI drafted regulations for number portability, accounting separation for all services, local loop unbundling and for setting up a Universal Service Fund to finance centres providing basic services in disfavoured areas. Furthermore, the reference interconnection offer of *Moldtelecom* for 2008 was approved. The government restored the functioning of the ANRTI by appointing the necessary quorum of board members to make the regulator functional.

There is a need to ensure close coordination between the ANRTI and the National Agency for Competition Protection in order to effectively implement competition in this sector.

Regarding the **audiovisual sector** the Republic of Moldova ratified in 2007 the Council of Europe Convention on Trans-frontier Television. Moldova is one of the first ENP partners to ratify both that Convention and the UNESCO Convention on Cultural Diversity.

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

In the area of higher **education**, the Republic of Moldova progressed in the introduction of the three-cycle structure in line with the reforms under the Bologna Process with due attention paid to the modernisation of curricula, accreditation and quality monitoring. Higher education institutions systematically used Tempus projects to explore and pilot elements of the Bologna Process, eventually proposing implementation at the national level. Participation in the Tempus and Erasmus Mundus programmes proceeded well, further underpinning education reform and promoting academic mobility and excellence. Progress on reform of vocational education has been less with low levels of participation in continuing vocational training and its provision not in line with the needs of the labour force. Cooperation with social partners and other stakeholders in the context of future plans for the decentralisation of vocational education and training would be required to address this situation. In addition, a lack of resources and political initiative continue to stall the momentum of education reform. Moldovan young people and youth workers have continued benefiting from the possibilities offered by the Youth in Action programme with participation rates on the rise.

In the area of **culture**, the Republic of Moldova ratified the UNESCO Convention on the Protection and Promotion of Diversity of Cultural Expressions the UNESCO Convention on the Safeguarding of Intangible Cultural Heritage and just after the reporting period, in January 2008, signed the Council of Europe's 2005 Framework Convention on the Value of Cultural Heritage for Society. Work also began on a series of bilateral agreements on cultural cooperation. A policy dialogue on cultural diversity has not yet emerged.

In the area of **civil society cooperation**, the Ministry of Social Protection, Family and Child signed a memorandum of understanding with Civil Society in November 2007 while a partnership memorandum was signed with non-governmental organisations by the Ministry of Foreign Affairs. In addition, the government adopted a national strategy on consumer protection in November 2007.

On the issue of **cross-border cooperation**, preparations were undertaken to develop the new CBC programmes with Moldovan participation. The Republic of Moldova is eligible for participation in the ENPI CBC programmes with Romania and Ukraine and in the Black Sea Basin programme. Programmes should be implemented in 2008.

The Republic of Moldova progressed on **health** reforms inter alia as regards infant and maternal mortality, primary health care and emergency services. It adopted a set of strategic documents including on the development of the health care system until 2017, mental health, blood security and the promotion of a healthy lifestyle. The Republic of Moldova continued combating communicable diseases such as HIV/AIDS and tuberculosis inter alia through the implementation of the National Programme for Prevention and Control of HIV/AIDS 2006-2010 and the recent HIV/AIDS prevention law. Continued attention is needed for health reform. The Republic of Moldova participated in the TAIEX supported seminar "Health in all policies" jointly organised by the European Commission, the WHO and the European Health

Observatory. It pursued its activities in the context of the South-eastern Europe Health Network. It participated in the EU Network of competent authorities in health information and knowledge and in the Commission's HIV/AIDS Think Tank.

8. FINANCIAL COOPERATION – 2007 KEY FACTS AND FIGURES

Since the adoption of the ENP Action Plan with Moldova, EC assistance has been increasingly geared towards supporting the achievement of key policy objectives as outlined in the Action Plan. With the entry into force of the European Neighbourhood and Partnership Instrument (ENPI) the strategic, policy-driven character of EC assistance was strengthened and allocations generally increased. The introduction of new cooperation instruments such as twinning and TAIEX (Technical Assistance Information Exchange) also strengthened the EC's ability to provide financial and technical support in key regulatory areas and reforms.

The indicative financial envelope for the Republic of Moldova under the National Indicative Programme for 2007-2010 is €209.7 million. The programme finances the implementation of three priorities: support for democratic development and good governance (public administration reform and public finance management, rule of law, judicial reform, human rights, civil society, local government, education, science and people-to-people contacts); regulatory reform and administrative capacity building (trade, improving the investment climate, social reform, regulatory aspects and administrative capacity); and poverty reduction and economic growth.

The 2007 ENPI Annual Action Programme for the Republic of Moldova has a budget of €40 million. EC assistance programmes to the Republic of Moldova focused on integrated border management and improving border control and surveillance capacity in the Republic of Moldova with a particular emphasis on the EUBAM operations on the Moldova – Ukraine border (EUBAM-flanking support), the reform of the Moldovan social assistance system, technical assistance and twinning operations in support to the Action Plan and the support for civil society in Transnistria.

Moldova also benefits from cooperation activities financed under the ENPI multi-country and regional programmes and is eligible under the ENPI Cross Border cooperation component (*see section 7*).

In order to support the adverse consequences of 2007 external shocks (surge in energy prices and unprecedented drought) on the country's economy, in 2007 the European Commission granted macro-financial assistance of €45 million (of which €20 million was disbursed in October 2007) and a €3 million humanitarian aid "Drought recovery programme" targeting the most affected areas.

At the end of 2006 the Republic of Moldova signed a Framework Agreement with EIB that paves the way to the identification of projects to be financed under the new lending mandates.

EC assistance has moved towards a sector approach, using budget support to implement sector reforms. Efficient delivery of Budget Support relies upon effective medium-term budget forecast system coupled with the development of strong, coordinated sector reform strategies. Progress has been made by the Republic of Moldova in this respect, and this should continue.

A new national development plan of the Republic of Moldova was produced for 2008-2011. This is a positive development, and its priorities should be duly reflected in the national budget and the medium-term expenditure framework.

There was some progress in aid effectiveness, but further progress will require that