



EUROPEAN UNION JOINT ANALYSIS

# Programming in the Republic of Moldova until 2020



SEPTEMBER 2016



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# Acronyms

AA	Association Agreement	DRMS	Disaster Risk Management Strategy
AGEPI	State Agency on Intellectual Propriety	EACC	External Assistance Coordination Councils
AIC	Agricultural Information Centre	EBRD	European Bank for Reconstruction and Development
AIDS	Acquired Immune Deficiency Syndrome	EC	Emergency Care
AIPA	Agency for Interventions and Payments in Agriculture	ECT	Energy Community Treaty
AIRM	Agency for Inspection and Restoration of Monuments	EEA	Energy Efficiency Agency
ANACIP	National Agency for Quality Assurance in Professional Education	EHEA	European Higher Education Area
ANSA	National Food Safety Agency	EIB	European Investment Bank
ANRE	National Agency for Energy Regulation	ENTSO-E	European Network of Transmission System Operators for Electricity
APA	Academy of Public Administration	ES	Environmental Strategy
APIUS	Association of Light Industry	EU (MS)	European Union (Member States)
APSFRRs	Areas of Potential Significant Flood Risk	EUCPM	EU's Civil Protection Mechanism
BCP	Border Crossing Points	FDI	Foreign Direct Investment
BDS	Business Development Services	FIU	Office for Prevention and Fight against Money Laundering
BMB	Bone Meal and Blood	GAP	Gender Action Plan
CAA	Civil Aviation Authority	GDP	Gross Domestic Product
CAAA	Common Aviation Area Agreement	GCI	Global Competitiveness Index
CBM	Confidence Building Measures Also Cross Border Management	GIFP	Giurgiulesti International Free Port
CC	Competition Council Also Constitutional Court	GoM	Government of the Republic of Moldova
CCA	Coordinating Council of the Audio-visual	GoNGOs	Government organised Non-Governmental Organisations
CEC	Central Electoral Commission	HE	Higher Education
CIS	Commonwealth of Independent States	HEI	Higher Education Institutions
CFM	Railway Company of Republic of Moldova	HIV	Human Immuno-Deficiency Virus
CHP	Combined heat and power generation	HoCs	Heads of Cooperation (i.e. Development Counsellors)
CMO	Collective Management Organisations	HoMs	Heads of Mission
CNA	National Anti-corruption Centre	HSC	Health Sector Council
CNC	National Centre for Cinema	HSEACC	Health Sector External Assistance Coordination Council
COA	Court of Accounts	IATI	International Aid Transparency Initiative
CP	Civil Protection	IC	Inpatient Care
CPA	Consumer Protection Agency	ICT	Information and communications technology
CPESS	Civil Protection and Emergency Situations Service	ILO	International Labour Organisation
CPI	Consumer Price Index	IMF	International Monetary Fund
CRDIP	Republican Centre for Development of Vocational Education and Training	INDC	Intended National Determined Contribution
CSD	Central Securities Depository	INM	National Institute of Metrology
CSDP	Common Security and Defence Policy	INS	National Institute of Standardisation
CSDS	Civil Society Development Strategy	IPS	Integrated Power System
CSO	Civil Society Organisation	IPPC	Integrated Pollution Prevention and Control
DCA	Department of Judicial Administration	ISA	International Standards on Accounting
DCFTA	Deep and Comprehensive Free Trade Agreement	ISE	Institute for Educational Sciences
DG ECHO	European Commission's Humanitarian Aid and Civil Protection department	IWRM	Integrated Water Resources Management
DH	District Heating	JRC	Joint Research Centre
DoJA	Department of Judicial Administration	LEDS	Low Emissions Development Strategy
		LG	Local Government



LLL	Lifelong learning	NWMS	National Waste Management System
LPAs	Local Public Authorities	ODA	Official Development Assistance
LPFFA	Law on Public Finances and Fiscal Accountability	ODIMM	Organisation for SME Development
LTIS	Land Transport and Infrastructure Strategy	OECD	Organisation for Economic Co-Operation and Development
MAFI	Ministry of Agriculture and Food Industry	ONVV	Wine and Vine Fund
MDL	Republic of Moldova currency "Leu"	OOP	Out of pocket payments
MFO	Micro-Finance Organisations	OSCE	Organisation for Security and Cooperation in Europe
MIEPO	Moldova Investment and Export Promotion Organisation	PAR	Public Administration Reform
MLSPF	Ministry of Labour, Social Protection and Family	PES	Public Employment Service
MMDA	Medicines and Medical Devices Agency	PFM	Public Financial Management
MMGI	Minimum Monthly Guaranteed Income	PGO	Prosecutor General's Office
MoE	Ministry of Economy Also Ministry of Education	PH	Public Health
MoEnv	Ministry of Environment	PHC	Primary Health Care
MoF	Ministry of Finance	PIFC	Public Internal Financial Control
MoH	Ministry of Health	PPA	Public Procurement Agency
MoIA	Ministry of Internal Affairs	PPL	Public Procurement Law
MoJ	Ministry of Justice	PPP	Public-Private Partnerships
MTBF	Medium Term Budget Framework	RoM	Republic of Moldova
MTRI	Ministry of Transport and Road Infrastructure	RDS	Regional Development Strategy
NACC	National Anti-Corruption Centre	REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
NAS	National Anti-Corruption Strategy	SCM	Superior Council of Magistrates
NBM	National Bank of Moldova	SCP	Superior Council of Prosecutors
NBS	National Bureau of Statistics	SIGMA	Support for Improvement in Governance and Management
NCCRD	National Coordinating Council for Regional Development	SIS	Security and Intelligence Services
NCEAH	National Council for Evaluation and Accreditation in Health	SDGs	Sustainable Development Goals
NCHM	National Centre of Health Management	SME	Small and Medium Enterprises
NCPEC	National Centre for pre-hospital Emergency Care	SRA	State Roads Administration
NCPH	National Centre of Public Health	STS	State Tax Agency
NCFS	National Committee on Financial Stability	SWM	Solid waste management
NEA	National Employment Agency	TEN-T	Trans-European Transport Networks
NGO	Non-Governmental Organisation	TLS	Transport and Logistics Strategy
NIC	National Integrity Commission	TB	Tuberculosis
NIHC	National Health Insurance Company	UK	United Kingdom
NPC	National Participation Council	UN (DP)	United Nations (Development Programme)
NQF	National Qualifications Framework	UNFCCC	UN Framework Convention on Climate Change
NRS	National Referral System for Assistance and Protection of Victims and Potential Victims of Trafficking	UNICEF	UN Children's Fund
NSRD	National Strategy for Regional Development	UPS	Unified Power System of Russia
NWMS	National Waste Management Strategy	USAID	United States Agency for International Development
NPAA	National Action Plan for the implementation of the Association Agreement 2014-2016	US\$	United States Dollar
NREAP	National Renewable Energy Action Plan	VAT	Value Added Tax
NEEAP	National Energy Efficiency Action Plan	VET	Vocational Education and Training
		TVET	Technical and Vocational Education and Training
		WBL	Work-based learning
		WHO	World Health Organisation
		WSS	Water Supply and Sanitation

# Introduction

In 2015, the EU, its Member States and like-minded donors, such as Switzerland, agreed to conduct a joint analysis of the economic and social development context of the Republic of Moldova (hereinafter referred to as Moldova). This joint analysis is a tool to improve the relevance and effectiveness of future programming whilst building on existing good development practices, most notably the steps taken with 2015's multi-donor *Briefing Book* (aligned with *Moldova 2020 Development Strategy*). The joint analysis focused on thirteen sectors. Within each sector the resources of the European donors were pooled to review the policy environment and priorities, the relevant articles and commitments in the Association Agenda, and the apparent opportunities for more effective programming. The analysis tackled the Transnistria issue, based on the EU's commitment to Moldova's territorial integrity, sovereignty, and work towards peaceful resolution of the conflict as well as on the state of implementation of the *Association Agreement*. This involved covering both legislative compliance and approximation, in addition to the implementation of commitments. Finally, the paper described the effectiveness of programming in terms of its alignment with the goals of supporting the reform process, whilst delivering demonstrable value to the wider population.

An enormous amount of collective work has gone into producing this joint analysis, involving all the actors listed above. However, special thanks needs to be given to the sector leads and supporting donors that took responsibility for drafting the thirteen thematic chapters. Democratic Governance (Chapter 1) was coordinated by the EU, with Estonia, Latvia and Lithuania contributing vital analysis on public administration reform, fraud and corruption. Chapter 2 on the Financial Sector and Economic Governance was coordinated by the EU. Sweden coordinated inputs on Economic Development (Chapter 3) with inputs at the sub-sector level from Austria, the EU, Germany, Latvia and Poland. Analysis on Local Governance (Chapter 4) was led by Germany, with support from the EU, Austria, Estonia, France, Hungary, Latvia, Poland, Slovakia, and Sweden. France coordinated the inputs on Justice and Home Affairs (Chapter 5) with valuable analysis also provided by

Austria, Estonia, the EU, Germany, Romania, Sweden, Switzerland and the UK. The Health and Social Development (Chapter 6) analysis was coordinated by the Czech Republic, with support from Austria, EU, Estonia, Germany, Sweden and Switzerland. In Education and Employment (Chapter 7), Austria coordinated the inputs with the help of the Czech Republic, Estonia, the EU, Germany, Liechtenstein and Romania. Culture (Chapter 8) was coordinated by France with inputs from Poland, Romania and Switzerland. The EU coordinated the analysis on Civil Society (Chapter 9) with the support of Latvia, Romania, Sweden, and Switzerland. Chapter 10 on Environment and Climate Change was coordinated by Austria with inputs at the sub-sector level provided by the Czech Republic, the EU, Hungary, Germany, Romania, Slovakia, and Switzerland. Romania coordinated the analysis on Energy and Transport (Chapter 11), with components provided by the EU,

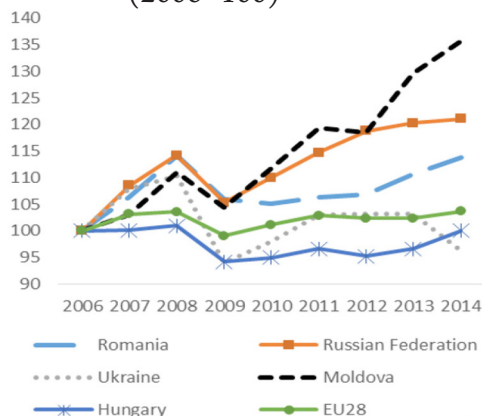


France, Germany, Spain and Sweden. The Agriculture, Food Safety and Rural Development analysis (Chapter 12) was led by Poland with inputs from Austria, Bulgaria, the Czech Republic, Estonia, Hungary, the EU, Germany, Latvia, Sweden, Romania, and Turkey. Finally, the analysis on Transnistria (Chapter 13) was coordinated

by the UK with inputs from Austria, the EU, Germany, Sweden, and Switzerland. Technical assistance was also provided by the EU's help desk on joint programming (DEVCO A2), with the support of the EU's DG NEAR. A gender equality analysis was commissioned by Sweden and gender is mainstreamed in all chapters.

## Context

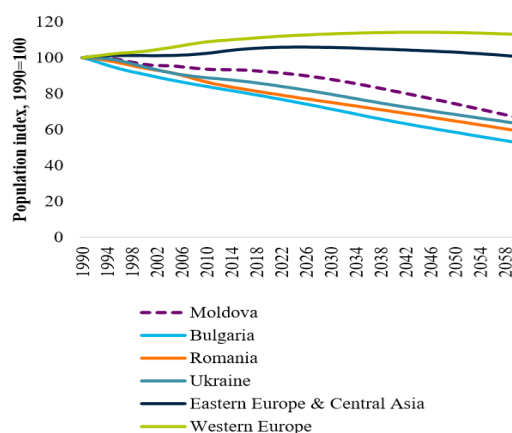
**Figure 0.1** Real GDP Index in 2006–2014, with comparator countries (2006=100)



Republic of Moldova is a lower middle income country with a GDP per capita of US\$ 2,240<sup>1</sup> (2014). It is one of the poorest in the European Neighbourhood region, but has also been one of the fastest growing. Remittances and record harvests contributed to economic growth of almost 10% in 2013 and 5% in 2014, although data from the last half of 2015 implies a notable decline. The government put economic growth to good use, reducing the national poverty and extreme poverty rates from 30.2% and 4.5% in 2006 to 16.6% and 0.6% respectively in 2012. The World Bank then reported that Moldova was one “of the world’s top performers in terms of poverty reduction”. However, stalled reform processes since 2014 have seen progress slowing and, in some cases, there are signs that service delivery is worsening (for example, in education and access to justice).

Strong economic growth and new market related opportunities are not being sufficiently capitalised on, as it is evident that the growth is often ‘jobless’ or even growth with shrinking employment opportunities. (This phenomena is further explored in Chapter 3. The result is a steady and continued outward migration of Moldova’s citizens, primarily seeking work abroad. Russian speakers tend to migrate for opportunities in the Commonwealth of Independent States (CIS), whilst Romanian speakers tend to move both to Europe and the CIS, seeking work abroad. This has resulted in something of a vicious cycle, with remittances softening the blow of the government’s inability to translate growth into livelihoods. The problem is that as the trend continues, Moldova’s population, as well as its productive capacity, is hollowing out, with an accordant impact on national revenue. An urgent national priority is thus the attraction of investment and the creation of jobs.

**Figure 0.2** Population projections (1990=100)



SOURCE: World Bank

Moldova’s economy benefits from remittances that are estimated to be as high as 26.1% of GDP. The economy is dominated by the service sector, estimated at 63.2% of GDP in 2015, while the agricultural and industrial sectors represented 20.7%<sup>2</sup> and 16.2% of GDP, respectively. The economy is small and open, but vulnerable to shocks, such as the economic slowdown in the CIS and lower

remittances. There is an increasing economic divide with more than half of industrial value, (excluding Transnistria), being added in Chisinau, even though it is only home to 23% of Moldova’s 3.6 million citizens. Future economic growth and diversification is dependent on continued reforms, as called for *inter alia* by the World Bank and IMF, particularly in relation to improving the business enabling environment<sup>3</sup>, combatting corruption, and improving the

<sup>1</sup> World Bank: <http://data.worldbank.org/country/moldova>

<sup>2</sup> Agriculture accounts for 30% of employment, with 60% of Moldova’s population living in rural areas. However, there is a discrepancy between the World Bank data analysis and that of the 2015 Moldova’s statistical year book in which agriculture is purported to be only 12.6% of GDP and industry 14.6% of GDP.

<sup>3</sup> See more detail in Chapter 3 but it is important to note that Moldova ranks 52nd out of 189 economies in the Doing Business report 2016, and actually worsened its ranking dropping 3 places from 2015.

effectiveness of public institutions. A fragile and opaque banking sector in need of reform remains one of the biggest systemic risks in Moldova.

Moldova's political and economic environment has not yet recovered from political upheavals following the banking crisis in 2014. The sheer magnitude and scale of the theft remains forefront in the public's consciousness and only adds urgency to the need for continued reform. The banking crisis has fractured public and international confidence in Moldova's institutions, highlighting gaps in combatting corruption and ensuring accountability. Since the last parliamentary elections (November 2014), there have been several short-lived governments succeeding each other. The result has been slowed reform processes, delayed decision making and service delivery. The sector analysis shows a clear impact on relationships with development partners, with problems relating to national leadership and ownership being reported across government.

The banking crisis and public demonstrations that followed heightened citizens' expectations for government transparency and accountability. The crisis has illustrated a broad-based partnership between parts of civil society, reform-minded government officials, and international development partners, to proactively and vocally combat corruption and improve public sector effectiveness. A mobilised electorate has affirmed the relevance of accountability, public sector effectiveness and democratic governance as the basis for sustainable social and economic development in Moldova.

## The Republic of Moldova- EU Partnership Context

The Government of the Republic of Moldova signed an Association Agreement (AA), including a *Deep and Comprehensive Free Trade Agreement* (DCFTA) between the Government of Moldova (GoM), the European Union (EU) and the European Union Member States (MS), in 2015. The *Association Agreement* is built on shared priorities of Moldova and the European Neighbourhood Policy, emphasising democracy, rule of law, human rights, fundamental freedoms, good governance, a functioning

market economy and sustainable development. In line with the implementation of these AA priorities, critical areas for cooperation include: visa liberalisation, justice, police and integrated border management, trade, agriculture and rural development, public administration reform, and civil society. Overall development cooperation is aligned with Moldova's national development plan, *Moldova 2020* and the global *Sustainable Development Goals* (SDGs).

Public Administration Reform (PAR), combating corruption, improving service delivery, and the effectiveness of the judiciary, are all key priorities for Moldova to move closer to EU standards. These reforms, combined with the DCFTA, give Moldova enormous opportunities to improve livelihoods through better access to the Single European Market, further enabled by visa-free access since 2014. A recent independent review estimates the DCFTA<sup>4</sup>, if implemented properly, will add 5% to Moldova's GDP and grow exports by 16%. Moldova's partnership with Europe is a domestic and foreign policy priority in Moldova, and is foundational to national development plans.

Strengthening civil society and gender equality (that will be further reinforced with a gender baseline study and *Gender Action Plan*) are important investments. Accompanied by confidence building measures, civil society development and gender equality could contribute greatly to better citizen buy-in and participation in Moldova's social and economic development plans and processes.

The Council of the European Union drew conclusions on the Republic of Moldova on 15 February 2016 following the finalisation of the ratification process of the AA. The Council's conclusions recommend "accelerated implementation of the Association Agenda", especially given critical delays in implementation of a number of important reforms. Politicisation of state institutions, systemic corruption, and slow public administration reform, amongst other factors, undermine the effectiveness

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<sup>4</sup> See chapter 3 below and reference to Study "Trade Sustainability Impact Assessments in support of negotiations of a DCFTA between the EU and Georgia and Moldova".

of regulatory bodies and are a major impediment to transparency and accountability in management of public finances, as well as to policy making.

The Council expressed its concern about the absence of a thorough and impartial investigation regarding the cases of fraud that affected Moldova's banking system in 2014. Corporate governance in the financial sector needs to be improved in parallel with the development of the independence of the supervisory powers of National Bank of Moldova and National Commission for Financial Markets. In addition, the Council is concerned about the lack of independence of the judiciary and law enforcement agencies, which undermines the possibility of creating a level-playing field for business and restoring an attractive and stable business climate.

According to the Council, effective, strategic communication, including cooperation with civil society and independent media, on the reform process within the framework of the AA, including its Deep and Comprehensive Free Trade Area, is crucial. It is fundamentally important that awareness is raised amongst

citizens of the Republic of Moldova about the benefits expected from the political association and economic integration with the European Union. The Council welcomes the discussions on constitutional reform, with a view to preventing future political deadlock, and recalls the attention of Moldova's authorities to the need for strengthened transparency of party financing, as well as freedom of the media.

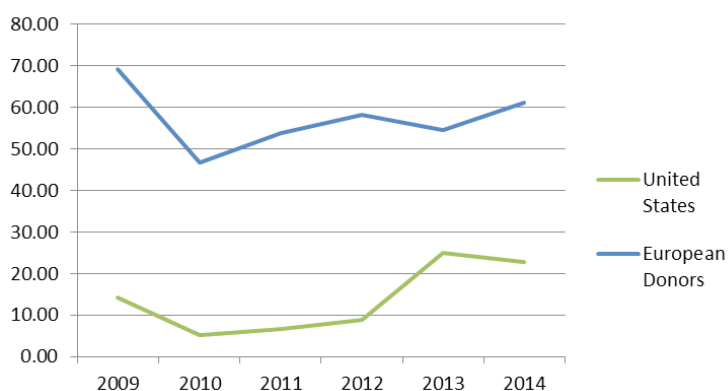
The Council finally welcomes the will of the Government of Moldova to resume negotiations for the Transnistria settlement process and positively evaluates the permanent working group for cooperation between the Parliament of Moldova and the Gagauz People's Assembly.

### Snapshot on European Aid Disbursements to the Republic of Moldova by sector

The graphics below provide a summary overview of the aid flows and financial assistance provided to Moldova by European development partners. The analysis is based on publically available OECD and IATI data.

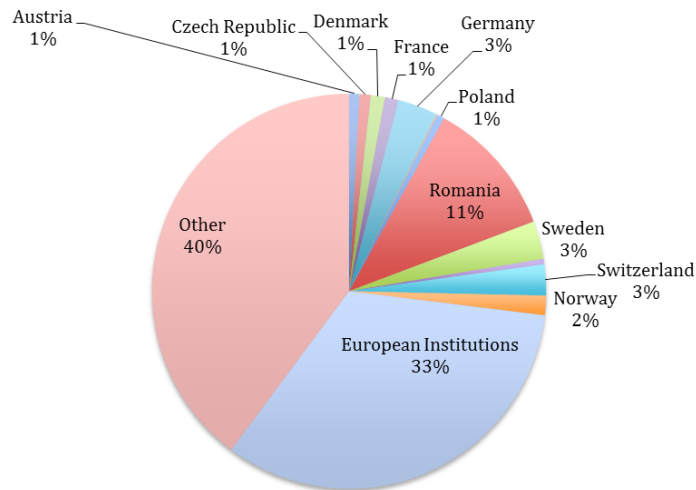
**Figure 0.3** Aid as a percentage of Total Aid (2009–2014)

European development partners in Moldova account for close to two thirds of reported disbursements of Official Development Assistance (ODA) to Moldova, as reported in the OECD's Development Assistance Committee Database<sup>5</sup>. Combined disbursements average just over €410 million annually, although this increased to €460 million in 2014, with Romania now reporting its spending too.



<sup>5</sup> see [iatiregistry.org](http://iatiregistry.org)

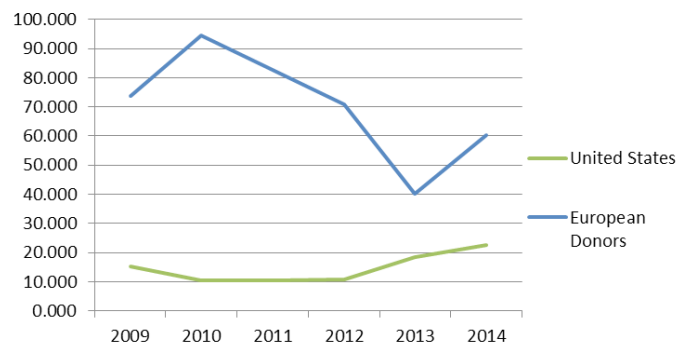
**Figure 0.4 Sources of Aid in 2014**



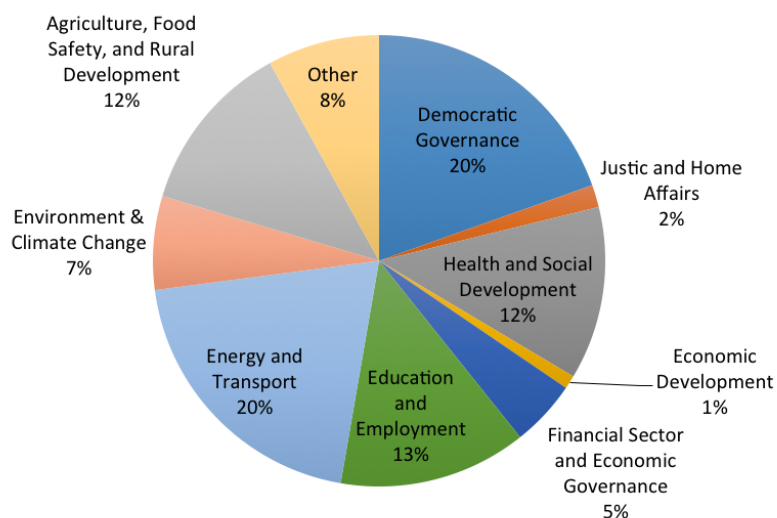
The EU accounts for a third of overall disbursements, with Romania, Germany, Sweden, Switzerland, and Norway being the next biggest contributors to development assistance to Moldova.

**Figure 0.5 Aid as a percentage of Public Capital Expenditure**

Whilst ODA contributes a little over 6% of Gross Domestic Product (GDP), it is considerably more important when considering its contribution to Moldova's capital (non-recurrent expenditure). Whilst ODA is reducing as an overall proportion, it still amounts to over 70% of non-recurrent public spending.



**Figure 0.6 Aid Distribution by Sector (2014)**



When aligning ODA disbursements with the chapters of this joint analysis, it becomes apparent that ODA contributes most to Democratic Governance and Energy and Transport. These two sectors account for two fifths of

all reported disbursements. Education and Employment, Health and Social Development, Agriculture, Food Safety and Rural Development are also big recipients accounting for another third of overall disbursements.

**Table 0.1: Official Assistance Disbursement Levels by Sector and Project Size for 2014**

SECTOR	2014 TOTAL DONOR PROJECTS DISBURSING OVER €175,000	% OF INDIVIDUAL PROJECTS FUNDED BY EUROPEAN DONORS	% OF OVERALL SECTOR SPENDING FUNDED BY EUROPEAN DONORS
Agriculture, Food Safety, and Rural Development	42	57%	24%
Democratic Governance	277	79%	70%
Economic Development	43	74%	91%
Education and Employment	192	82%	93%
Energy and Transport	43	56%	49%
Environment and Climate Change	56	79%	86%
Financial Sector and Economic Governance	27	52%	42%
Health and Social Development	184	60%	50%
Justice and Home Affairs	37	97%	94%
Other	90	64%	71%

SOURCE: IATI



## Summary Findings

Moldova's economic and social development benefits from extracting value from greater political association and economic integration with the European Union (EU), in line with the vision elaborated in and the entering into force of the *Association Agreement*. The *Association Agreement* is of critical importance to Moldova's trade and economic relations with European Union, as well as non-European Union markets. Investing more in human and institutional capacities (in implementing the *Association Agreement*) will improve Moldova's international competitiveness and capacity to deliver social and economic development.

The recent political turmoil illustrates the importance of constructive dialogue between all political stakeholders on a shared vision for prosperity in Moldova. On the one hand this means reaffirming the importance of reform, transparency and anticorruption measures. On the other hand, the analysis draws attention to the pressing need for Moldova to invest more in delivering tangible and visible benefits to the public, alongside less visible administrative and legislative processes. At the same time there are concerns (raised in a number of sectors) that Moldova's society has become fractured by amongst other things, sustained outward migration, factionalist politics and looting of public coffers. The ability of the democratic process to deliver a 'better life for all' is intertwined with a shared sense of inclusiveness and hope for a better future for the country as a whole. Concerns related to a fragmenting national identity are thus seen as a serious risk to be mitigated and/or addressed.

In the long term, public administration reform is expected to deliver increasingly visible tangible benefits by reducing the proportion of domestic revenue spent on recurrent expenditures. Reforms will improve return on spending, as well as free up a greater proportion of public spending that can be allocated to investment and services. This requires professionalising the civil service at all levels so as to attract and retain the specialised expertise any modern government needs. At the same time, efficiencies need to improve including through merging, downsizing and in some cases modifying the central role that government plays in service delivery. An absence of public administration reform along these lines will continue to make it difficult for development partners to support sustainable reforms within most sectors. Major public administration reform is therefore largely a precondition for effective and sustainable cooperation between development partners and Moldova's government.

The analysis also shows that slow implementation of the *Association Agenda* and accompanying reforms is systematically undermining the capacity of Moldova to take advantage of the opportunities available to it. The *Deep and Comprehensive Free Trade Agreement* (DCFTA), for example, affords Moldova's citizens and private sector access to the world's biggest single market. Visa liberalisation has also made it easier for Moldova's citizens to do business in Europe that many believe is not fully capitalised on. In the same vein, Moldova is well positioned to take advantage of much larger neighbouring markets such as in Ukraine and Romania. Investing more in enabling trade and investment within the immediate neighbourhood could deliver significant returns. These opportunities are hampered by slow reforms in critical areas such as improving the business enabling environment, moving towards market relevant education and even simplified certification and control mechanisms that are essential to access the EU single market.

Programming should equally focus on visible and tangible actions that can support the government's stated intention of creating a level-playing field for business and an attractive and stable investment climate. This is an evident opportunity to strengthen the partnerships with private sector actors, including responding better to their calls for improved transparency and a better investment/business enabling environment.

The energy sector, in particular, needs restructuring to enable Moldova to access the opportunities inherent in moving to higher energy efficiency and development of renewable energy sources, together with interconnecting the energy supply systems (gas and electricity) with the EU, reduce the energy dependency from the East and improve the security and quality of energy supply. Corporate governance in the financial sector needs to be strengthened to combat corruption as well as to stimulate entrepreneurship and protect local businesses.

Credible cooperation with Moldova is only possible if accompanied by on-going political and policy calls to investigate and remedy the cases of fraud that led Moldova near to financial collapse in 2014. Funds must be recovered and those found guilty brought to justice. The recommendations of the audit report of the three banks under special supervision should be implemented in close collaboration with the IMF, while measures to reduce systemic risks in the banking sector should be adopted. In order to mitigate the risk of further bank frauds, alignment of the legal framework to counter money-laundering with the EU legislation should be pursued.

Perceived interference with the judiciary and law enforcement agencies, combined with allegations of corruption and slow and/or stalled implementation of reforms, is a systemic impediment to social and economic development in Moldova. These problems directly undermine the business enabling environment, thus depriving Moldova of important economic opportunities. The analysis points to the need for sustained and high-level political dialogue to provide continued incentives for implementing reforms to ensure the independence, effectiveness, transparency and accountability of the judiciary and of the anti-corruption institutions. Equally important is continuing reform in the prosecution service and fighting against corruption within the judiciary. This is intimately connected with institutionalising merit-based and transparent recruitment and promotion of judges. Development partners should use their convening authority to raise attention to and support peer pressure for ongoing reforms.

The analysis draws attention to the government's commitment for cooperation between the Parliament of the Republic of Moldova and the Gagauz People's Assembly and to resume negotiations for the Transnistria settlement process.

The analysis demonstrates the need to improve communication in cooperation. Programming could invest in communication with the public both to demonstrate tangible benefits and to assure citizens that European development partners are in support and solidarity with the public when it comes to stamping out corruption and pushing for better service delivery. It also reveals the communication between development partners and government decision makers' needs to be improved. By using their combined weight, in partnership with other like-minded development partners (such as the UN, World Bank and USAID), there is a notable and cost effective opportunity to improve the effectiveness of cooperation by establishing a strong government lead, sector coordination and policy dialogue structures.

# Democratic Governance and Public Administration

## 1.1 Introduction and Context

The Democratic Governance and Public Administration sector covers three main areas: Democracy Building, Public Administration Reform and Fight against Fraud and Corruption.

In 2016, the sector will benefit from two new major policy developments. The first is the anti-corruption strategy, which has been delayed since November 2015, but remains a priority for stakeholders and decision makers. The second is the new Public Administration Reform (PAR) strategy which was endorsed by the Government on the 6 July. The first Action Plan for developing the PAR Strategy is being developed. The PAR strategy is essential to kick-start what is largely a dormant reform process and also to reinstall confidence in the government's leadership of the process.

Whilst the government has passed a number of important pieces of legislation and regulations (listed in the annex), there are still perceived to be major gaps in the policy frameworks. Overall, the various frameworks could be better harmonised to reduce the risk of competition, mixed messages and ambiguities. This is particularly important in PAR where the policy framework is criticised by some as being scattered and piece-meal, rather than comprehensive and integrated.

Implementation of legislation and regulation also remain pressing problems, partly due to the fact that management of the government's workload does not clearly define a division of tasks, responsibilities and functions among the different statutory bodies. Many stakeholders attribute this problem as the primary impediment to progress, both in PAR and

anti-corruption measures. At the same time, implementation is severely impeded by the lack of adequate budgeting to implement policy frameworks (most notably PAR).

Institutional capacity is also a major challenge. There is a general lack of human resources, such as in the State Chancellery, policy coordination division, and the National Integrity Commission. In other cases, there is insufficient capacity to perform key functions, namely proper oversight of budgetary controls in the Court of Accounts and in the Parliament of Moldova. Also the current institutional arrangements and large number of applicable regulations that have not been optimised significantly reduce the effectiveness of functions that require inter-institutional cooperation.

Democratic Governance as a whole is central to the European partnership with Moldova and is referred to in article 10 of the Association Agreement, as part of Title II on Political dialogue and reform, and cooperation in the field of foreign and security policy. Public Administration Reform is referred in the article 21, 22 and 23 under the first chapter of Title IV on economic and other sectoral cooperation. Anti-corruption is covered in article 16 of Title III on Freedom, Security and Justice. Although none of the three sectors contain specific requirements about localising EU Directives, 'democratic governance is essential to all programming and is a core European value as well as a pillar of the overall partnership.'

The Sector Coordination Council for Public Administration Reform and Working group on Anti-Corruption (led by NACC) are the main vehicles for coordination in the sector.

## SUB-SECTOR ANALYSIS

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### Democracy Building

Moldova has made notable and measurable progress in increasing the stability and effectiveness of democratic institutions in the recent past, but in some areas implementation appears to have stalled and many serious challenges remain. The Action Plan of Moldova's Government for 2016-2018 explicitly affirms its overall objective as being about building a state of law and effective, depoliticised institutions that serve the people under the principle of transparency and efficiency. However, sector stakeholders largely consider implementation of the promised reforms and concrete steps as inadequate. Worryingly, a culture in which institutions behave without accountability has continuous, undermining confidence.

Democratic institutions appear to be losing their credibility among society, with signs that they are unable to keep up with the challenges faced by Moldova. This is partly due to systemic failures to implement the modernisation process. Recently, Parliament's hold on oversight and control of executive power has shown signs of significant deterioration. The status of the Parliament will only be further undermined by weak integrity controls over MPs, with the legislative work of Parliament often perceived as manipulated by vested interests. Lobbying activities are not sufficiently regulated to ensure fairness and transparency, and citizens are deprived of essential information, including from the Parliament's own website.

Recurring political crises questions the credibility and accountability of the government and other key democratic institutions. The legal framework at the constitutional level still remains uncertain, and is related to concerns about neutrality over the functioning Constitutional Court (CC), Central Electoral Commission (CEC) and judiciary. Political parties further appear to lack internal democratic functioning, often being perceived as vertical/top down

organisations negotiating amongst vested interests, rather than responding to the needs of the electorate. Lack of effective controls and transparency over political party funding remain one of the biggest challenges for the political system in Moldova.

### Public Administration Reform

The Public Administration Reform (PAR) process is under revision as it is shown by the recently adopted strategy, however, the scope of the reform is uncertain due to the apparent resistance of decision makers in undertaking structural reforms. The main task is to develop institutional and functional public authorities, so that they work more efficiently and ensure the transparency and efficiency of service delivery and cost reduction. To achieve this, Moldova has, to its credit, launched a series of e-services (e-visa, tax services, e-invoice, cadastral, etc.) and the portal [www.servicii.gov.md](http://www.servicii.gov.md). However, there is currently no statistical data on the level to which the citizen has access to actually make use of the available services (for example: percentage of petitions submitted online, tax services offered online, etc.). Furthermore, Moldova does not fare well on indicators regarding general public service quality and transformation (see the SIGMA report, 2015).

### Fight against Corruption

The current system for preventing conflict of interest, incompatibilities and illicit enrichment is based on the controls exerted by the National Integrity Commission (NIC), created in 2011, but operational since 2013. NIC is a collegial body composed of five members (including its chairperson), who are appointed by Parliament with a non-renewable mandate of five years. NIC members are supported by 21 technical staff. In 2014, NIC closed 257 cases, including 62 opened in 2013 and 195 in 2014. Of the 257, 122 were closed by ascertaining some infringements as recorded by the final act of findings (so called *acte de constatare*), while 135 were dropped because initial allegations were not confirmed. Out of 122 cases, which deserved a judicial or administrative follow up, 54 concerned infringements of rules on incomes and properties, 50 conflicts of interests and 18 incompatibilities. NIC has not played a significant role in reducing the level of corruption in Moldova's administration. The system mentioned above is clearly inadequate for Moldova.

The National Anti-Corruption Centre (NACC) is the national authority specialised in the prevention and fight against corruption, corruption-related acts and acts of corruptive behaviour. NACC has the following tasks:

- Preventing, detecting, investigating and curbing corruption contraventions and offences and those related to corruption offences, as well as acts of corruptive behaviour.
- Preventing and combating money laundering and financing of terrorism, according to Law 190-XVI of 26 July 2007 on preventing and combating money laundering and financing of terrorism.
- Performing anti-corruption expertise of draft legislative acts and draft normative acts of the Government, as well as other legislative initiatives submitted to Parliament, to ensure their compliance with state policy to prevent and combat corruption.
- Ensuring the performance of corruption risk assessment within public authorities and institutions through training and consultation, monitoring and analysis of data on corruption risk assessment, as well as coordination of the drafting and fulfilment of integrity plans.

NACC is headed by a director appointed for four years by the President, at the proposal of the Prime Minister (although this mechanism has since been adjusted). However, provisions concerning the requirement for the Legal Commission for Appointment and Immunities of the Parliament to carry out a contest to select the candidate for the position of NACC Director remained in force. The NACC has 350 employees, out of which 201 are dedicated to the repressive mandate of the Centre in the investigative, operational and criminal prosecution activities. Moldova has adopted the National Anti-Corruption Strategy (NAS) for the period of 2011-2015, which represents the main instrument of public policies that aims to lower corruption in the public and private sectors in the Republic of Moldova. The Strategy period was extended to cover 2016, but following the end of the validity period of NAS, no further strategy has been approved.

The Office for Prevention and Fight against Money Laundering (FIU), as an independent specialised unit within NACC, has the power to freeze the accounts of the entities

involved in suspicious transaction or activities. However, stakeholders have complained that FIU is not effectively coordinating with other institutions and public bodies and therefore undermines the fight against money laundering.

The lack of cooperation between the different law enforcement bodies in the Republic of Moldova seriously undermines their investigative capacities, as can be seen by the lack of progress in the investigation of the banking fraud case, where it is highly likely that high ranked officials were involved.

Slow progress in implementing reforms in the judicial system places an additional burden on the fight against corruption, where judiciary and prosecution are often dismissed by the public as being “part of the problem”, rather than part of a credible institution. Similarly, political party financing remains a major concern, especially since there is no control *ex ante* or *ex post* by any public body.

## 1.2 Medium-Term Trends

Stakeholders in the sector worry that there are signs that political pluralism is shrinking in Moldova, alongside proportionally smaller control of public affairs by state institutions. This is not helped by growing public criticism that electoral results do not translate well into government behaviour.

At the same time, although there are signs of movement with the PAR council, there is still scepticism about the level of commitment to any meaningful reform. Furthermore, low domestic resource mobilisation and resistance to collecting taxes (and combatting tax and customs fraud), begs the question as to how reforms and expanded service delivery will be paid for. A functional review of this situation will be launched in 2016-2017, but it is unclear who in government is leading and advocating for the likely proposed changes that will arise from such an exercise.

In terms of progress on combatting corruption, the medium-term trends indicate a high risk of continued politicisation of anti-corruption mechanisms, especially in the main institution, NACC.

### 1.3 Key Challenges to be addressed within 2017–2020 period and beyond

The elections, regardless of the uncertain neutrality of CEC, are still fair in general and may potentially serve as a political “game-changer”. The public has also demonstrated its ability to mobilise civil society across party lines and demand greater accountability. This is evidenced by significant social pressure on political authorities to fight corruption. At the same time, lack of financial resources and the recognised need to attract external investment and lending could prove an important motivation for reforms, particularly when it comes to guarding against misuse of public funds.

Moldova is a relatively small country, as is its Public Administration, meaning that structural changes have the potential to be implemented quicker and more cost-effectively than in many other larger countries.

The pressure for transparency and accountability from civil society on the government, political parties and state institutions remains one of the strongest elements of influence and a boost to the modernisation processes. Well-developed e-governance infrastructure could, if properly deployed, also contribute to governance transparency. Moreover, the dependence of Moldova on external aid that is conditioned on greater transparency, might serve as an incentive to strengthen and cement democracy processes in the country.

One opportunity to fill a much needed gap would be to change the focus of the *Academy of Public Administration* to one of life-long training for public employees and centre of excellence for innovation in Public Administration Reform.

*Identity and Narrative:* the public has little faith in the possible effectiveness of pressuring the government. This is also hampered by a relatively low level of legal and civil awareness. The lack of civic education and little investment in an identity and narrative that encourages participation and accountability might prove an important obstacle to democratic governance.

*Transparency:* not enough has been invested in transparency and communication with the real risk that as the memory of the recent banking crisis fades, the public will be increasingly distanced from what decisions parliament and government are actually taking. Accountability is impossible without access to information, and a culture that resists transparency does not bode well for engendering greater sharing of information.

*Politicisation of the Administration:* there are continued signs that recruitment and spending plans continue to be politically partisan rather than evidence-based. This has created a political economy of its own in which there is always an incentive to opt to support the ruling party over holding it to account. Meaningful reform will not be possible without accompanying reforms and programming decisions that move towards evidence-based decision making. Similarly, even within government itself, staffing decisions are not results-oriented, with some services severely under resourced and others over-staffed. Addressing these bottle-necks all depend on the success of the PAR in instilling a new/modern public sector management culture, for which there is currently no credible advocacy and communication plan.

*Checks and balances:* anti-corruption instruments and institutions, especially the NACC, are at risk of being under direct control of elites. The related challenges in the judiciary and prosecutor's office contribute to a constrained environment for watch-dog type institutions. Across the board, judges, prosecutors and MPs could improve their standing through an ‘integrity test’ but there appears little will to put such tests into practice.



*Inter-institutional cooperation:* public administration still operates in silos with evidence that different arms of government are more likely to compete rather than cooperate with each other. A culture of cooperation, currently lacking, is essential to the effectiveness of law enforcement bodies.

### 3.1 PAR

- The lack of a credible overarching strategic framework and steering instrument: The National PAR Council was approved by Governmental decision 716 on 12 October 2015. A first meeting of this Council was held on 11 March 2016 and a new strategy was endorsed by the Government on 6 July 2016 without endorsement by the Parliament nor a proper wide consultation process. The State Chancellery and Ministry of Finance are the leading institutions.
- An apparent lack of national ownership in leading structural reforms and moving towards a stronger, professional and meritocratic Public Administration. An example of the obstacles to increased professionalization of Public Administration relates to the appointment of State Secretaries. The legislative framework was updated in February 2014 for the creation and appointment of State Secretaries as the highest ranked civil servant in the line ministries. State Secretaries are supposed to lead the administrative structure of the ministry following the political guidelines established by the leadership. As of July 2016, only 6 State Secretaries out of the total of 16 ministries are appointed. Two State Secretaries were transferred to the Prime Minister's Office in March 2016, leaving their respective ministries without such an important position filled.
- Policy making is not evidence-based due to two main factors: the use of economic and/or social impact assessments is limited when preparing regulation and the use of statistical data from the National Bureau of Statistics is very much limited.
- Signs of poor cooperation between individual institutions and the Public Administration.
- Lack of costing of PAR related policies within the Medium Term Budgetary Expenditure Framework. Additionally, there is no separate budget line for PAR, which appears to be a serious omission considering the scale of the reforms planned.
- Transparency and accountability of decision-making and policy implementation is hampered by the lack of monitoring and evaluation systems. Standardised public consultation procedures are also not in place, thus undermining norm-setting in terms of accountability to the public. The 2015 State Budget, for example, was adopted by the Government of Moldova without initial revision by Parliament. The 2016 State Budget was adopted by the Parliament on 1 July 2016.
- Public services are not informed by citizen and business needs. The current territorial structure undermines reforms in public service delivery due to lack of economies of scale and administrative and economic resources. A telling point is that there are almost 900 local authorities in 35 administrative regions, despite Moldova's small and shrinking population.
- The use of public-private instruments, such as concessions or Public-Private Partnerships (PPPs), is not generally used by policy makers for cost-effective provision of public services.
- A lack of a reform perspective for the Academy of Public Administration (APA) is fundamental to reforming the training system for public employees. By Governmental Decision 850 of 9.12.2015, the State Order for the training of civil servants of the APA for 2016 was approved. Nothing was changed from the previous years. The procedure and way of functioning remains the same. So far, no transformation or reorganisation of the APA is foreseen.

In terms of provisions of the Action Plan on the AA, the Progress Report is late, but also narrative in nature and does not reflect measurable progress on each of the planned actions. The Rules of procedure were supposed to be approved by the end of 2014, whilst in September 2015 this, together with other draft legal and normative acts<sup>6</sup> was still at the inter-institutional consultations stage. These problems undermine norms and have a knock-on negative effect on administration.

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6 <http://dcfta.md/uploads/0/images/large/title-iv-economic.pdf>

## 2.

# Financial Sector and Economic Governance

## 2.1 Introduction and Context

The Financial and Economic Governance sectors consist of activities and policies clustered around public financial management (PFM) and financial sector reform, with the latter being of particular importance due to the recent crisis. There is good, productive partnership and dialogue on PFM, although with some delays and challenges. In public procurement, the Ministry of Finance (MoF) should strengthen its policy role and set up a coordination mechanism reflecting the new administrative responsibilities as soon the amendments to the Public Procurement Law (PPL) are adopted by the Parliament.

Progress in reforming the financial services sector lags notably in comparison. Moreover, coordination in the financial sector has been lacking in the past, but there are now signs of improvement. A joint Government-Donor working group was recently established, and a donor co-ordination mechanism to facilitate information sharing in the financial sector met for the first time in March 2016.

improved. A key challenge is that the budget timetable has not been respected in recent years, not only at the political level but also at the operational level during the different stages of the annual budget cycle.

The budget is executed through a Treasury Single Account system and the MoF is able to control spending levels throughout the year. The main weakness is that cash flow planning is only carried out by the Treasury. There is no bottom-up estimation or planning of financial needs. Accounting is the responsibility of individual budget organisations and the central commitment control is based on separate reports. It is therefore prone to errors and risks. Annual financial reporting is ensured, but one notable shortcoming is that the Parliament has not lately discussed the government's annual financial report.

With regard to the capital spending on public investments, and despite significant improvement of the legal framework, only a few steps were taken to enforce it. As a result, the main weaknesses in the public investment management are: inadequate project screening and appraisal; lack of project prioritisation; inefficiencies in resource allocation

### SUB-SECTOR ANALYSIS

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#### Public Financial Management

*Budget Process:* Procedures for the development of the Medium Term Budget Framework (MTBF) are well developed and institutionalised in line with the requirements of the relevant EU Directive. The main weaknesses are the undeveloped links between the sector strategies and the MTBF, as well as the lack of formal endorsement of the MTBF by the GoM. The annual budget procedure is also well defined and closely steered by the Ministry of Finance (MoF). Together with the budget documents it provides a good level of information on current expenditures, while transparency of data on public investments could still be

due to political pressures; unpredictability in funding for existing projects; weak monitoring and evaluation of ongoing projects.

*Taxation:* The lion's share of Moldova's tax revenues is consumption tax, most notably VAT. The tax system is characterised by numerous tax exemptions which erode the tax base, reduce compliance and have adverse effects on tax avoidance and tax evasion. Tax reform is increasingly a priority, especially in light of the need to expand resource collection, such as through broadening the tax base. Additionally, some stakeholders have argued that there is a need for a change in the growth paradigm from one predicated on consumption to one that is investment and export driven.

According to the 2015 Doing Business report, Moldova has achieved substantial progress with respect to the time to comply with tax requirements. To some extent, a declining trend in compliance costs could be explained by the introduction of the "e-declaration" system, online payment for some taxes, and the reduction in the number of declarations by merging them, and other developments, as reported in the Moldova State Tax Service Development Plan for 2011-2015. But, despite a notable progress registered in the area of cost of compliance, tax revenue collections exhibited a less positive dynamic. The authorities have prepared a draft Law on the State Tax Service aimed at improving the tax administration.

*Public Procurement:* Stakeholders criticise the Public Procurement Agency (PPA) for not collecting and analysing enough statistical data to enable objective assessment of the efficiency of the public procurement system. PPA is rigid and overly formal, especially through the *ex-ante* control and registration of public procurement contracts. Red tape and a lack of transparency does not support efficient practices in public procurement processes. Additionally, authors of this analysis would suggest that procurement officers need to strengthen their capacities. Public procurement is seen as an after-thought and suffers from a lack of professionalism. The PPA has been criticised for insufficient operational, advisory, and training support to contracting authorities and economic operators. The MoF has not taken up the policy role needed. The

number of contracting authorities needs to be decreased because it reduces efficiency, undermines opportunities for economies of scale, makes oversight more challenging, and incurs an enormous cost by putting in place a system of different (and competing) 'preferences'.

*Internal Control and Audit:* The primary issues concern delegation of Public Internal Financial Control (PIFC) responsibilities to all managers of spending units. The basic legal and methodological framework is in place, but the PIFC system is not fully operational. An internal audit is not fully established and the mandates for financial inspection are unclear. Actual inspections are criticised as being arbitrary or ineffective, with the apparent need to clarify institutional responsibilities and standards.

*External Audit:* With extensive support from international development partners over the last decade, the Court of Accounts (CoA) has tried to graduate from a compliance control approach to a modern risk-based audit. Much progress has been made, but there is a long way to go in changing institutional cultures. A new Strategic Development Plan has been adopted in line with European norms. With the adoption of the full set of International Standards on Accounting (ISA) in 2013, the CoA committed the institution to align with international standards and good European practices. However, implementation is slow and audit coverage remains insufficient.

*Management of public assets,* including State Owned Enterprises and 100% owned Joint Stock Companies is to be improved. Corporate governance, financial management, and control of State Owned Enterprises need to be enhanced.

## **Financial Sector**

*Reputation risk:* Following the banking fraud uncovered in November 2014, the banking sector still faces a reputational risk which deters investors. In October 2015, the National Bank of Moldova withdrew the licence for financial activity of *Banca de Economii*, *Banca Sociala* and *Unibank* following a large banking fraud. The failures underscored supervisory forbearance, poor institutional controls to monitor ultimate beneficial ownership of banks, and a weak judicial system,

all enabling raider attacks by which shareholdings are fraudulently transferred away from their rightful owners. An on-going investigation into the fraud is being conducted by the consortium Kroll and Steptoe & Johnson LLP, who have been tasked with identifying the organisers and final beneficiaries of the fraudulent transactions, and recover assets misappropriated from the three banks.

*Shareholder non-transparency:* The remaining three biggest banks (*Moldindconbank*, *Moldova Agroindbank* and *Victoriabank*) have come under special supervision since June 2015. These banks are criticised for a lack of transparency on the ultimate beneficial owners, large exposures to some clients, party-related lending in bank portfolios, and a rising share of non-performing loans (NPLs). Three-quarters of the banking sector's assets are allegedly controlled by a handful of individuals who also purportedly control much of the non-bank financial sector (insurance companies, securities registries, etc.), thus affording them levels of control that imply unacceptably high risks to the current financial architecture and transparency thereof.

*Financial stability:* A fragile banking system with non-transparent ownership is a threat to macroeconomic and financial stability. Resolution tools employed by NBM in restoring the health of any of these banks, might amplify uncertainty among bank depositors. Mitigating possible depositor runs requires careful communication from NBM to safeguard financial stability.

*External risks:* The banking sector is also vulnerable due to a challenging external environment. External risks remain significant in view of the recession in the Russian Federation (one of main external trade partners of the Republic of Moldova). Also, external risks are propagated through lower remittances, reducing households' income and credit servicing capacity. As a result of the macroeconomic effects on the real sector and households, non-performing loans are likely to increase on bank balance sheets.

*Supervisory practices:* The National Bank of Moldova (NBM) has begun strengthening supervision of the banking sector to clean-up non-transparent shareholder's structures and

toxic lending, using a strategic approach. After completing diagnostic studies in the three banks under special supervision, NBM will take relevant action to restructure or resolve them (such as early intervention measures, changes in governance, and some resolution tools). Shareholder transparency exercises were carried out in one bank, followed by various supervisory actions, such as shareholder shares-packages being blocked. NBM strengthened its authorisation function by creating a separate unit for identifying ultimate beneficial owners. Particular attention has to be paid and due diligence processes strengthened before giving fit-and-proper certification to bank owners, board members, and directors.

*Money laundering:* Moldova's cash-based economy heightens the risk of money laundering, and is also exacerbated by a shortage of technical and human resources in the Financial Investigation Unit (FIU) and the few supervising institutions. Reporting entities lack the authority to freeze suspicious transactions within a sufficient amount of time to effect implementation of anti-money laundering and combatting the financing of terrorism (AML/CFT) measures. Insufficient, inconsistent and uncoordinated financial investigations undermine the value of investigative resources and do not empower law enforcement as they should.

## 2.2 Medium-Term Trends

*Public finance management:* In terms of budget process, the expectations are for programme budgeting to be steadily rolled out, the results of which will be closely monitored and followed. Progress on PFM is causally connected to whether or not the draft law on the Supreme Audit Institution will be adopted by Parliament and the incoming leadership. The clarification of types of audit in the law is crucial. Based on clearer priorities, better coverage and more readable reports are expected. It is also hoped that new and clearer responsibilities should be introduced in the system. New tools fostering transparency, such as those offered through e-governance, should be put in place and gradually aligned to European standards.

*Strengthening deposit insurance:* The current low level of depositor protection and its restriction to only private individuals is an amplifier of financial instability. Higher deposit insurance coverage and strengthened funding arrangements help support financial stability. Extending depositor protection to include small businesses and non-financial corporates, as well as significantly raising the level of insured deposits from the current level of MDL 6,000 per depositor, should be implemented with urgency. A redraft of the Law on deposit guarantee fund should also include arrangements to provide the deposit guarantee fund with a credit-line from the Ministry of Finance, and should also have access to liquidity support facilities from the National Bank.

*Overhauling supervisory process:* A fundamental overhaul of supervisory process, including a more risk-based and forward-looking supervision, is needed to restore confidence in the banking sector. The culture of banking supervision has to change with supervisors being trained to apply enforcement and sanctioning measures to banks and its managers when non-compliance with laws and regulatory rules are detected. The NBM has at its disposal a range of supervisory tools, but it needs to apply them in a timely manner and sanctions must be effective and dissuasive. This will require strong leadership and clear direction from the National Bank management.

*Corporate governance:* Banks need to improve corporate governance and risk management standards in the banking sector. Weak corporate governance and poor oversight arrangements have helped fraudulent lending practices take place that have led to heavy economic costs. Only a systematic approach and comprehensive re-evaluation of ultimate owners, proper regulation, effective supervision, and persuading banks to have good governance framework, can resolve these problems.

*Strengthening bank capital:* Banks need to have capital strengthening strategies to increase their capacity to absorb losses. The capital adequacy ratios of banks are higher than the minimum requirements in the country (set as 16% Tier 1 capital ratio), but against the current macroeconomic background and existing problems in banks, the capital base can be insufficient to absorb potential losses.

Furthermore, banks in Moldova are still only complying with Basel Capital Accord (Basel I) requirements. When banks start reporting under EU CRDIV (Basel II and Basel III) standards, common equity tier 1 ratio could be significantly lower. NBM should therefore require banks to implement capital strengthening strategies, for example, by imposing restrictions on dividend payments.

*National Committee on Financial Stability:* The composition and mandate of the National Committee on Financial Stability (NCFS) should be redesigned. The NCFS established in 2010 creates a moral hazard by politicising the management of material risks that confront the financial sector, and has the potential to delay the actions needed to be taken by the National Bank to restore financial stability. As it is currently formulated, the overall duty and responsibility of the committee is to manage and deal with systemic financial crisis, but the committee lacks the tools and expertise needed to address this. Indeed, the global community's emphasis is on safeguarding financial stability rather than fighting the financial crisis as it is formulated here. This committee's composition and mandate should be redesigned and given the primary objective of identifying, monitoring and taking actions to remove or reduce systemic risks with a view to protecting and enhancing the resilience of Moldova's financial system.

## 2.3 Strengths/opportunities/ critical bottlenecks

The development of parliamentary oversight is a prerequisite for continued development of the external audit function and the possibilities to add value in the further implementation of the PFM strategy. Embedded in this are mechanisms ensuring that responsible actors are held to account. A momentum currently exists to develop forms of communication and a participatory approach.

Efforts aimed at eliminating multiple registrars holding share registers and strengthening the integrity of the securities registration system are stalling. However, a single central securities' depository (CSD) operated and regulated by the

National Bank, and which will not be governed by the Capital Markets Law, has been approved by the Parliament. While the CSD will hold share registers of public interest entities in the near term, promoting efforts to transfer all shares held by multiple Registrars to the CSD in the medium-term would create a more transparent share registry system and foster development of capital market activities.

The Parliamentary approval process continues to be slow. A draft Law on amending and supplementing some legislative acts on the National Bank and National Commission on Financial Markets (NCFM) has now been approved in Parliament after delays of several months. These amendments – providing legal protection to the NBM and NCFM Management and its staff against lawsuits, removal of the legal control of NBM and NCFM acts by the Ministry of Justice and suspension and cancellation of the supervisory decisions – should provide greater independence and protection to the NBM and NCFM in regulating and supervising the financial sector.

The lack of a bank resolution regime hampers the addressing of current banking sector problems. Moldova does not have any legislation providing NBM with resolution powers (Resolution Authority), resolution tools (sale of business, bridge bank, asset separation, bail-in of creditors), or financing (resolution fund). Regulations on

some resolution tools (bridge bank) should be established as soon as possible in order to resolve problems in the banking sector. The project of full implementation of the EU Directive 2014/59/EU on Bank Recovery and Resolution, which will provide NBM with powers to resolve problem banks, should be initiated next year. Implementing a bank resolution regime in the Republic of Moldova is not simply a “good-to-have” framework, but rather a pre-requisite for passing the compliance assessment test that a sound banking system and deposit insurance system are in place, which together contribute toward safeguarding financial stability. But implementation of the directive on bank resolution can be challenging, similar to implementing the capital requirements directive, and therefore will require technical support.

Concerning anti-money laundering, two issues demand particular attention: one on cross-border transactions, and another on transactions with Transnistria. In each case, tax evasion and potential for AML/CFT abuse is high. Against this background, it is essential to increase the intensity of AML/CFT surveillance in banks, including targeted on-site inspections. But the lack of possibilities by FIU and Reporting Entities to identify the source of assets transferred by the companies and persons from Transnistria in order to implement the international and national AML/CFT requirements remains a bottleneck.



## 2.4 Key Challenges to be addressed within 2017–2020 period and beyond

### Public finance management

The following policy frameworks are being developed or are expected to be developed in the medium-term under PFM:

- A draft Law on the State Financial Inspectorate is currently being analysed by the MoF.
- A new Law on the National Audit Office, including a modification of the Constitution provision related to the Supreme Audit Institution, has been submitted to Parliament.
- Amendments to the Public Procurement Law (PPL) are being processed by Government with the objective to adopt these before the PPL comes into force on 1 May 2016. Secondary legislation is also being prepared. However, a new procurement strategy and road map to implement it, as well as related commitments, are needed.

In terms of coherence with the Association Agreement, the draft Law on the State Financial Inspectorate is not in line with the PIFC concept and general principles for financial inspection. Amendments in the legal framework for the public external audit carry some important shortcomings. However, for public procurement, all steps indicated above are aligned to the association agenda.

Important gaps identified in the existing policy framework in PFM include:

- A PIFC legislative framework is established, but a number of laws and amendments are still required.
- The Law on Public Finances and Fiscal Accountability (LPFFA) provides for a comprehensive view of the state budget planning, and includes clear responsibilities and a timetable. Implementation will begin with the 2016 annual budget cycle. The MoF, however, has identified nearly 100 other laws and by-laws needing to be harmonised with it, but the necessary amendments have not been passed to Parliament yet.
- The Law on Court of Accounts needs to be addressed fostering independence, clarifying the mandate and giving a base for a smoother approach, higher productivity, and value for money.
- The LPFFA responsibilities includes basic provisions on public investment management, but the Law allows financing of inefficient public investment projects, and doesn't require sustainable financing of effective projects until their completion and evaluation of project performance.
- The Government's Public Investment Management Resolution #1029 identified public investment project appraisal and selection procedures, but such procedures have not been introduced and don't cover projects financed by the State Special Funds as well as projects implemented by SOEs.
- The PFM Strategy is reasonably comprehensive, but its current medium-term targets are not precise in many cases and there has been no costing of the reform plans. The PFM Strategy needs to be updated in accordance with new developments and expectations.
- A revised legislative framework related to management of public assets, including public procurement, concessions, public private partnerships and utilities, should be adopted and brought in line with the EU regulations.
- Procurement in the areas of defence and utilities remains to be regulated.
- New regulations for the Public Procurement Agency and Complaint Settlement Agency are needed.
- A draft Road map for public procurement is needed, reflecting the current situation and priorities.
- The Law on the State Tax Service aimed at improving the tax administration should be adopted.
- The fiscal legislation should be brought in line with the EU acquis.

## Financial services

Important gaps identified in the existing policy framework for financial services include:

- Timeline for implementing Capital Requirement Directive IV for credit institutions and investment firms by NBM and NCFM do not coincide.
- Adequate fit-and-proper certification of bank owners, directors, and managers is required, as well as ensuring the establishment and consequent proper treatment of economic relationships between banks and borrowers.
- The NBM's role as resolution authority should be assigned whilst also being given more resolution options.
- Parliamentary oversight of the issuance of debt to support banks needs to be restored.
- The deposit insurance scheme should be revamped in line with the Financial Sector Assessment Programme recommendations through transposition of the EU Directive on Deposit Guarantee Schemes.
- Legislation on a central securities' depository (CSD) should be developed.
- Strengthening supervision and regulation of non-bank financial institutions, and particularly the insurance sector.
- Better oversight of lending standards and liability structures of non-bank credit organisations, ensuring risk management frameworks and loan loss provisioning practices are uniformly implemented across all participants in the sector, and strengthened consumer protection agencies to monitor their lending practices should be developed.

## Anti-money laundering

On anti-money laundering, the following EU requirements must be implemented: Directive 2015/849 of the European Parliament and of the Council of 20-05-2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

In the medium-term future plans to strengthen the policy and legislative environment promise to address many of the gaps mentioned above only if they are resourced, mandated and implemented.

## 3.

# Economic Development

### 3.1 Introduction and Context

Economic growth and poverty reduction gains achieved over the last decade in Moldova have been fuelled by strong remittance flows that triggered increased import-served consumption. The growth has not been accompanied by an increase in employment. On the contrary, the total number of employed people decreased by 22% from 2000 to 2015. Another macroeconomic negative result from a consumption-led growth model was the build-up of an alarming trade deficit. The level of Foreign Direct Investment (FDI) per capita in the 2005-2014 period was the lowest in the region (€ 79). Given the high cost of capital and shortage of long-term financing in the Republic of Moldova, such low FDI undermines the competitiveness of the country. Moldova currently scores 4 out of 7 in the Global Competitiveness Index (GCI) rankings, with good ratings (of 5) only for the provision of health and primary education services. The score for higher education is 4, this reflecting the quality and the synchronisation of the curricula with the market needs. The Vocational Education system leads to a mismatch between knowledge and skills of students and the needs and expectations of future employers. Moldova's other scores in the GCI are particularly weak for institutions, market size, innovation and technological readiness.

Implementation of the Deep and Comprehensive Free Trade Area (DCFTA)-related reforms is expected to help address these issues by enhancing the country's competitiveness, and is likely to dominate the agenda of the Government and market players. Implementation will be a challenge for Moldova's economy and will influence economic reforms in the medium term. Improvements in the business climate and enterprise competitiveness are needed to reap the potential rewards. These are to be achieved through the development of both regulatory and institutional frameworks, directly or indirectly related to trade. A specific challenge in this area is associated with food safety, due to the fact that most DCFTA commitments affect this particular sector.

On the other hand, the business community should have an enhanced capacity to adapt to new conditions and be competitive. Improvements in firms' strategic management,

financial management and reporting, marketing, product quality, production processes, and other areas are needed. Business development services are lacking in quantity and quality. This is aggravated by the fact that those public authorities mandated to facilitate exports, investment and SME competitiveness, are under-resourced and need organisational development. The services these authorities currently provide are limited and do not reflect real needs of the economy.

The sector which is to be most influenced by the DCFTA is agriculture. It is also the least prepared regarding tough competition on international markets, due to low productivity, high land fragmentation, and outdated technologies. The lack of preparedness is also due to the weak capacity of the Government to attest the safety of Moldova's food products. The biggest pressure and expectations from the DCFTA (e.g. direct competition

leading to decreased production) are projected for live animals and animal origin products.

Agriculture and agro-processing offers the most opportunity from the DCFTA, together with textiles and clothing. The biggest indirect gains are projected to occur in services, including commerce, construction, transport services, and professional and business/IT services.

As the implementation of the AA and the DCFTA foresees deep reforms in the public sector, the capacity of public authorities to adapt to new processes and support the business community is a risk that needs to be mitigated. The combination of low absorption capacity and inflexible systems in public authorities with vested interests, coupled with corruption at all levels, further impedes the shift to a legal and institutional framework that helps Moldova's producers increase their competitiveness.

Independent studies estimate that the DCFTA would separately contribute to an increase of Moldova's GDP by approximately 5% in the long run<sup>7</sup> (i.e. after the time that is required for capital reallocation between economic sectors), provided it is fully implemented and sustained. Similarly, Moldova's exports would rise by as much as approximately 16% and imports 8%. Nevertheless, if the investment climate and competitiveness improves significantly as a result of reforms, the GDP growth might demonstrate much higher figures. The combined benefits would be greater employment in export sectors, higher wages for workers, and more competitive prices and quality for local consumers.

The Government of Moldova (GoM), through a number of national policy documents has indicated that the top priority is shifting from remittance-based economic growth to export-led growth. The GoM recognises the need for an investment-and-export-led engine of growth in its Action plan for 2015-2016. The programme sets out a comprehensive set of reform actions to enhance export competitiveness, attract investments and achieve closer

trade integration with the European Union. The recently adopted National Strategy for Investment Attraction and Export Promotion 2016-2020 foresees attracting investment as the main driver of competitiveness and, as a result, of increased export capacity. The Small and Medium Enterprise Sector Development Strategy for 2012-2020 foresees that small and medium enterprises (SMEs) serve as a factor of steady economic growth and national competitiveness. The National Development Strategy "Moldova 2020" reinforces Government's commitment to a development paradigm based on a dynamic model driven by domestic, foreign investment and export-oriented sectors.

The DCFTA covers trade in goods and services and improves conditions for investors. The DCFTA is considered to be the greatest challenge for Moldova's economy in the medium-term. The DCFTA entails a comprehensive list of reforms which will enhance Moldova's competitiveness and create conditions for export led growth.

## SUB-SECTOR ANALYSIS

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The section below assesses key national development issues, trends and capacity gaps in each sub-sector related to Economic Development. All of these sub-sectors and related reform actions are reflected in Moldova's policy documents (listed below) and in the Association Agreement between the EU and Moldova. *Title IV, Ch. 5, art. 38-40 of the AA* on consumer protection states that in order to achieve a fair protection of consumers' rights, removing barriers to trade, promoting exchange of information, and building capacities of public institutions and NGOs should be undertaken. *Title IV, Ch. 3, art. 27-30* on company law, accounting and corporate governance specifies that shareholder's protection, introduction of international standards in the field of accounting and auditing, and the development of the corporate governance policy is needed. *Title IV, Ch. 10, art. 62-64* on industrial and enterprise policy stipulates that improving the business climate, with a special focus on SMEs, as well as promoting export and attracting investment in order to enhance competitiveness should be a priority. In *Title*

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<sup>7</sup> EU, Ecorys/CASE (Oct. 2012). Trade Sustainability Impact Assessments in support of negotiations of a DCFTA between the EU and Georgia and Moldova

V, Ch. 5, art. 192-201- customs and trade facilitation, the parties agreed to reinforce cooperation in this area with a view to ensuring the existence of relevant legislation and procedures, as well as administrative capacity of the relevant institutions.

### Consumer Protection

The implementation of consumer protection policy and the state supervision of the observance of legal provisions in the area of consumer protection is the responsibility of the Consumer Protection Agency. Although the basic principles of the EU producers' liability are contained in Moldova's legal framework, further efforts on continuing alignment of legislation are necessary. For example, the time limit for lodging complaints needs to be changed, from the current one month in Moldova's law to three years in the EU Directive. Consumer protection in Moldova also needs to be improved through legislation in the field of sales of consumer goods and associated guarantees, actions for the protection of consumer interests, statute of limitation (timeframe in which consumers can file complaints), consumer credit, distance contracts, comparative advertising, and general product safety. More importantly, effective implementation of the legislation is paramount, in particular through an efficient market surveillance mechanism and consumers' access to court and out-of-court dispute settlement.

The critical bottlenecks are as follows: insufficient normative basis (lack of Technical Regulations for some products / services); poor evaluation of risks before inspection (RASFF and RAPEX system still are to be implemented); low professional capacities in the area; and the overlapping responsibilities in some sectors with other authorities (National Food Safety Agency, State Construction Inspection.)

The medium-term trends and needs are to improve the information and education measures for consumers, continue capacity building for the staff of the Agency for Consumer Protection, provide know how transfers with EU Countries, and the exchange of good practices in developing the consumer protection model in the Republic of Moldova, as well as develop a Rapid information system

for exchange of information about dangerous non - food products among Moldova's and EU MS authorities.

### Competition

The current situation in the sector can be described in terms of quality of investigations, the actual extent of investigations and regulation developments. The Competition Council (CC) underwent investigations in 2015 but its decisions have been appealed to court review and final decisions have not yet been made. Thus, the CC is still to determine the quality of its investigations and adopted decisions. The CC has also acted on complaints cases of unfair competition, though it has not thus far extensively used its investigation powers under the new law on seizure of relevant information. This raises serious concerns about impartiality and independence of the CC as a regulatory body which are the main challenges in its activity. The CC has also not yet established a full list of regulations on how to conduct investigations, how to apply leniency rules available in the law on competition and how to properly calculate fines. The current level of the enforcement of competition rules thus remains relatively low. In 2015, the CC hired new officials, improved the knowledge of civil servants in competition law and implemented a modern information technology and strengthening policy approach.

The medium-term trends are characterised by a focus on further enhancement of the capacity of the CC, the gradual improvement of the competition culture in the Republic of Moldova and the establishment of viable and effective cooperation with other national agencies, involved in regulating particular industries including investigating anticompetitive behaviour.

The main strengths of Moldova's competition sector are the established legislation and the solidification of the institutional environment. The main weaknesses can be summarised as: critical setbacks that may occur because of possible changes in the political situation; vulnerability towards political pressure and influence on the CC; the slow pace of adoption by stakeholders of pro-competitive attitudes; the fluctuation of human resources out of the CC; and the volatility in the extent of Government's support (financial or other) to the CC.

## Industrial and Enterprise Policy

During the 2010-2014 period, the overall industrial production volumes grew by 3.8% annually, the manufacturing industry grew somewhat more dynamically by 4.8% per annum. Industrial production contributes to approximately one sixth of the country's GDP and is one of the largest sectors. Of concern is the trend that the number of exported goods has shrunk in absolute terms. At the same time, exports have been delivered to a larger number of trading partners. In respect of industrial products, they have increased their weights in production and export structures during the last decade, whereas agricultural goods lost in relative importance. This trend is likely to continue.

The country risk caused by political instability and corruption is one of the main obstacles in attracting FDI. More specifically – the initial cost of investment and the lack of ready-for-business industrial spaces are the primary cause of international companies opting for other countries in the region when extending, as almost none of them are interested in real-estate investments in Moldova.

The main existing incentives for industry in Moldova focus on exemptions in Free Economic Zones. However, these do not make up for the high costs and efforts of constructing or reconstructing industrial spaces. Compared to its peer countries, Moldova is not competitive when it comes to instruments that stimulate job-creating investment, such as job-creation subsidies or state-supported provision of production infrastructure. Whereas necessary budgets are scarce, especially in terms of crisis, and they need to be identified in order to harness opportunities for future growth.

Industrial production is unevenly distributed across the country. More than 56% of the production value is generated in Chisinau alone even though only 23% of the population lives in Chisinau. The share of the Southern Region, including Gagauzia, represents less than 7%. Unfortunately, important industrial resources are situated in the Eastern regions of the country which are not controlled by the constitutional authorities. A conscious effort to spur the development of selected growth poles appears to be

the tool of choice in order to spread development across the country, make use of effects of scale.

The employment ratio/proportion of the population employed in Moldova is below 40% (the EU average is 65%). In industry, the number of employed people decreased by 13%, while in agriculture by 53% between 2000 and 2014. Relocation of some industries to Moldova, especially labour-intensive ones, could stop the decrease in the number of jobs and employ the available unskilled labour force, thus partly tackling poverty and emigration.

Another challenge is ensuring the supply of a workforce that is ready for the labour market. Students enrolled in tertiary education very often decide on courses of study that are relatively distant from the actual demand from employers. The situation regarding professional education is still more critical, as participation of the private sector is very low, and content supplied by professional schools very often does not meet private sector demands.

## Customs and Trade Facilitation

Customs and trade facilitation have been given added importance since 2014, when Moldova signed the AA with the EU, which also established a DCFTA. In terms of the DCFTA, the main focus of Moldova is to fulfil its trade and business-related mandatory requirements (*acquis*) as set out in Chapter 4 on Trade and Trade-Related Matters. In addition, Moldova's efforts in the field of customs and trade facilitation have also focused on clearance procedures based on risk assessment and building trust. In this aspect, Moldova's customs services introduced reforms related to Post Clearance Control and Post Clearance Audit and the introduction of the Authorised Economic Operator concept. A major recent achievement in improving Moldova's trade facilitation policies was the bold step taken in May 2015 to cut the number of support documents required for customs clearance (from around 11 to 3).

In the medium-term, the GoM will continue to align its customs and trade facilitation policies with Moldova's engagement undertaken as part of the EU-RM AA/DCFTA. This will undoubtedly entail further simplification of requirements and formalities in respect to foreign trade in goods; reduction, simplification and standardisation of



documentation required by customs; continued support in the application of modern customs techniques and improved working methods ensuring transparency and efficiency of trade and customs operations.

The main strengths of Moldova's customs and trade facilitation sector are the country's commitment to align itself with EU/international best practices, especially in view of attaining the country's AA/DCFTA commitments and the will to introduce more efficient and transparent customs' work practices and thus limiting the possibilities of abuse. Main weaknesses are the lack of key elements in the country's quality infrastructure, the limited knowledge of Moldova's private sector on the DCFTA, and the lack of key equipment and databases to ensure better customs procedures.

### **SME Development**

Since 2012, the Republic of Moldova has made considerable progress in developing a comprehensive institutional framework for the SME sector. An SME development strategy has been designed under the leadership of the Ministry of Economy and is, *de facto*, implemented by an experienced SME Agency. Despite this good institutional policy framework, strong policy design is not always matched with corresponding, systematic implementation. Substantial progress has also been achieved in improving the operational environment for SMEs, through new e-government services and streamlined business registration procedures.

The medium-term goal pursued by GoM is to foster SME competitiveness and thus reap the internal and external market opportunities offered by the DCFTA. In this aspect, the government is focussing on alleviating the main challenges confronting SMEs, namely burdensome regulations in key areas (e.g. customs, technical barriers to trade, permits and licenses, inspections), which imply high transaction costs for SMEs. Another priority is addressing difficulties in obtaining access to finance due to structural challenges in the banking sector and lack of alternative sources of financing, as well as a significant need for skills upgrading and innovation through training and other business support infrastructure.

The strengths of Moldova's SME sector are the good country policy and institutional frameworks and the existence of two key policy implementation agencies: Moldova's SME Development Organisation (ODIMM) and the Investment and Export Promotion Organisation (MIEPO). Main weaknesses that need to be addressed in order to ensure a thriving and competitive SME sector are a better enforcement of SME policies; the improving of SMEs' access to external sources of funding, especially in rural areas; the enhancement of professional skills in SMEs; the provision of wider access to affordable SMEs' Business Development Services (BDS) and enhanced efforts to increase Moldova's SMEs' internationalisation perspectives and opportunities.

### **Business Climate**

The competitiveness of companies remains constrained in a business environment characterised by regulatory uncertainty, inhibited competition, regulatory implementation gap between *de facto* and *de jure*, excessive regulation and controls that lead to high transaction costs, and restrictive FDI investment climate. This seriously undermines the country's export performance and investment growth. Numerous studies and assessments have identified several aspects of the investment climate as the most problematic: permissive documents system, inspection framework, business regulation, customs administration, competition framework, corruption in the judiciary as well as access to finance. The trend related to business regulations as well as to its implementation is negative. Moldova ranks 52<sup>nd</sup> out of 189 economies in the Doing Business report 2016, and so has worsened its ranking by three places compared to a ranking of 49 in 2015.

The Government declared the improvement of the business climate as one of its top priorities. In March 2016 it imposed a three-month moratorium on inspections for all authorities, later in July it was extended for another three months, except the National Bank and the public health authority. However, this measure must go hand-in-hand with intensive work related to the inspection framework. During this period, authorities will be able to dedicate staff and resources to implement the risk-based inspection

methodologies through sustainable implementation of risk assessment, risk management and risk communication techniques. In parallel, the Government needs to intervene promptly in the legal framework in order to streamline and simplify permissive documents, reduce regulatory constraints on markets, and increase the level of investment protection. This is to be combined with work on application mechanisms, e.g. enhancing the capacity of relevant public authorities to implement the proposed changes. Provided that there is a strong Government commitment to implement the above-mentioned measures, there are good prerequisites to succeed. There is also targeted support from the main development partners, such as EU, Germany, Sweden, the World Bank Group, and EBRD that contribute to the evidence base (i.e. through providing good-quality analyses and studies).

Another issue affecting the Business climate is the weak and corrupt justice system. Without authoritative and credible justice systems to ensure the same rights and enforcement, all economic entities and stakeholders in the Republic, and especially foreign investors, remain cautious about investing in the country.

The latest development on the financial sector underlined weaknesses in corporate governance and supervisory capacity of the NBM. These led to high scale frauds and damaged financial stability of the country. As result in the short run no FDI increase and cheap financing instruments are expected.

## **3.2 Cross-cutting issues**

### **Gender Equality and Women's Empowerment**

In 2014, the labour force participation rate among women in Moldova was 38%, compared to 44% for men. Economic inactivity has become an outstanding feature of Moldova's labour market. This has been perpetrated through economic growth which is actually 'jobless', with few employment opportunities regardless of relatively high educational levels. In addition, high reservation wages,

age-based discrimination, and high degrees of household work combined with limited public services, which are significant for women and negligent for men, have all contributed to an uneven and unjust labour market.

Women's and men's ability to take advantage of new economic opportunities generated by the DCFTAs will depend heavily on their access to and control of education, assets and resources. Challenges for business people typically include access to land, credit, market information and opportunities, inputs (goods and services), technology, skills, SPS/TBT support, and reliable infrastructure, including testing facilities. While these challenges are common for all business people, they tend to be more constraining for women, who have the added constraint of finding childcare and time to do housework due to traditional gender roles.

### **Anti-corruption**

In Moldova, corruption is endemic and systemic, entrenched in the full range of government institutions at every level and includes control of key state institutions to benefit private interests. This assessment is confirmed by independent studies and public surveys. Most importantly of all, it is confirmed in the daily lives of Moldova's population. The effects of corruption are seen in the poor performance of the economy. Potential investors, both domestic and international, decide to invest elsewhere and fewer citizens of Moldova have well-paid jobs. The needed to address this crippling issue refer mainly to the justice sector, but also to the business regulatory framework.

### **Environment and Climate Change**

Moldova's sustainable development is adversely affected by high levels of water pollution, natural resource degradation (including soil and forests) and hazards. The state of the environment, natural disasters and climate change directly affect living conditions and health, as well as economic development. To address these issues the Government has adopted the National Environment Strategy 2014-2023 which foresees the development of sector-specific environmental programmes. Although the Strategy has timelines, its implementation is lagging.

## Transnistria

The EU is a crucial export market for Transnistrian exporters. The Transnistrian region has benefited from the asymmetric EU trade liberalisation granted to the Republic of Moldova since 2006 with various preferential trade. All in all, despite the volatile evolution of the region's foreign trade, total exports of the Transnistrian region grew from 2005 to 2014 by 17% (from US\$ 578 million to US\$ 678 million), while the exports to EU doubled (from US\$ 115 million to US\$ 259 million).

Transnistria currently has the possibility to start implementing the DCFTA through some trade facilitating measures that need to be gradually implemented and to which Chisinau and Tiraspol agreed. These agreements maintain preferential access of Transnistrian goods to the EU market. It should be noted that a qualitative implementation of these measures is the only possibility to achieve DCFTA implementation on the entire territory of the Republic of Moldova.

### 3.3 Key challenges to be addressed within 2017–2020 period and beyond

The greatest challenge for Moldova's economy in the medium-term is to ensure high quality economic growth through elimination of critical constraints. To succeed, the business climate should be improved and additional industrial development instruments need to be introduced. This will lead to enhanced capacity to attract investments, which would directly contribute to an enhanced competitiveness in all tradable sectors. The result of these efforts should materialise in increased exports to international markets. This is expected to have a positive impact on poverty reduction by generating additional jobs.

The long-term challenge would be to convert economic growth into welfare, a concept that incorporates various development aspects aside from economic ones, among which include public health, rule of law, access to culture, and, last but not least, a clean environment.

The immediate/short term challenge is to increase competitiveness in all tradable sectors as a result of the enactment of the DCFTA. Moldova has a good export potential, but it needs to fit in the extremely competitive EU market. The new trade regime will also expose the domestic market to greater EU competition.

The AA/DCFTA reform agenda presents a major opportunity to accelerate growth. Improvements in the business climate and investment protection system are needed to reap the potential gains. A favourable business environment is attractive to foreign investment, especially FDIs, which also bring a transfer of know-how.

GoM must guarantee proper and transparent functionality of the state institutions that are involved in regulation and supervision of the business environment based on the rule of law in line with local and international legislation.

These challenges are reflected by the National Development Strategy Moldova 2020 adopted in July 2012 as well as in the National Strategy for Investment Attraction and Export Promotion 2016-2020, adopted in March, 2016. Both policy documents foresee investment attraction as the main driver of competitiveness and of increased export capacity. It is expected that the implementation will imply joint efforts from the Government, the business community, and the civil society.

# 4.

## Local Governance

### 4.1 Introduction and Context

Moldova's signing of the *Association Agreement* includes a high level commitment to improving Regional Development, Cross-Border and Regional Level Cooperation (Chapter 20 of the AA): *Moldova committed to applying the principle of "decentralisation of the decision-making process, from the central level to the level of regional communities"*. Title IV, Articles 107-112 of the AA encourages *"mutual understanding, and bi-lateral cooperation in the field of regional policy, including methods of formulation and implementation of regional policies, multi-level governance and partnership, with special emphasis on the development of disadvantaged areas and territorial cooperation, with the objective of establishing channels of communication and enhancing exchange of information and experience between national, regional and local authorities, socio-economic actors and civil society"*. Article 112 sets out that regular dialogue will take place on the issues covered by this chapter, which includes the Danube Strategy. A Declaration establishing a Dialogue on Regional Policy was signed by the Commission and the Republic of Moldova in 2010, providing a framework for policy advice to be given to Moldova by the Commission's Directorate General for Regional and Urban Policy.

According to the Constitution of the Republic of Moldova (1994) "the concept of autonomy encompasses both the organisation and functioning of local public administration, as well as the management of the communities represented by that administration". Article 107 requires the State to respect the principles of: local autonomy, decentralisation of public services, eligibility of local government, and citizen consultation in matters of local importance.

Put together, combined with the National Development Strategy (Moldova 2020) and the National Decentralisation Strategy and the Action Plan for 2012-2015, these commitments are recognition at senior level that Moldova needs to modernise its public administration system according to the subsidiarity principles of the Council of Europe's Charter on Local Self-Government, (which was ratified by the Republic of Moldova in 1998). This drive towards modernisation will be further reinforced by the

National Strategy on Regional Development (NSRD) 2016-2020, which has already passed the inter-ministerial reviews<sup>8</sup> and is now pending parliamentary approval. Additionally, Government Decision 217 of 25 March 2014 that amended the Law on Public Procurement was approved (adopted by Parliament on 19 June 2014) in harmonisation with Directive 18/2004 / EC and 66 / 2007 / EC of the Council of Europe. The term 'good governance' is primarily challenged by the unstable political situation, frequent elections and low salaries for civil servants.

However, after twenty years of implementation of the decentralisation and local governance prerequisites, the

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<sup>8</sup> The Regional Development Councils of the 3 regional development regions approved the new Regional Development Strategies 2016-2020 in February 2016. Regional Sector Programmes for the sectors energy efficiency in public buildings, water supply and sanitation and solid waste management were approved during 2014 and 2015.

envisaged ends have only been partially achieved. Local governance is split into the two subsectors of: Decentralisation (1) and Regional and Cross Border Cooperation (2), which are covered in more detail below.

## SUB-SECTOR ANALYSIS

### Decentralisation

The National Decentralisation Strategy aims to transfer competencies and financial resources from central authorities to local authorities. The Report on the Evaluation of the NDS indicates that 57% of the actions to achieve the objectives were implemented in the 2012-2015 period. Amongst the most important reform actions implemented was the adoption of a set of amendments to the Law on Local Public Finances on November 2013.<sup>9</sup> These amendments set a new type of financial relation between the central public administration and local administrations of first and second levels, securing a higher degree of independence of local authorities. Still, according to the World Bank Public Expenditure Review Report<sup>10</sup>, the adjustment of the transfer formula does not favour development in small communities.

Local governments are fragmented and lack administrative and institutional capacity. According to the provisions of the Law on Administrative Decentralisation<sup>11</sup>, a local government is considered to be adequate when its administrative expenses do not exceed 30% of the total amount of own revenues<sup>12</sup>. The large majority of local governments (83%) cover the costs of their administrations from transfers provided by the state.

Low fiscal capacity due to a low tax base, lack of discretion in setting their own fees, low property tax, high administrative expenses - per capita administrative costs are five times higher in smaller municipalities - <sup>13</sup> and high vertical fiscal imbalances contribute to economic inefficiency of the local governments. This leads to a lack of basic local service provision (including in facilitating economic development), particularly in rural areas where two thirds of the population live. There is also a problem with too many structures covering too small a population: 769 local governments (85% of the total) have a maximum of six staff members (the remaining 25% less than four staff members), that includes the mayor, secretary, tax collector, cadastre specialist, engineer, and accountant. Lower populations undermine local authority capacity to collect revenue even to cover their own costs, let alone to implement local development.<sup>14</sup>

Many stakeholders believe consolidating local governance structures is the only viable route to both improving service delivery and reducing the proportion of revenue spent on recurrent expenditures.

The Government has created several sector decentralisation working groups that elaborated drafts of the sector decentralisation strategies in the following sectors: education, social assistance, communal services, health, public property management, fiscal decentralisation, sports, youth and culture. So far, only fiscal decentralisation and decentralisation of the education and youth sectors were implemented with adoption of the amended Law on Local Public Finances (2014) and a new Educational Code (2014), and the National Youth Strategy (2014). These were piloted and implemented the new models of Inter-Municipal Cooperation (IMC) with a formation of 15 clusters of communities (incl. Gagauzia) that jointly deliver public services to the population. The IMC has been applied by the local authorities in the regional projects financed out of the National Regional Development Fund and external sources.

<sup>9</sup> The Law 302 of 13.12.2013 and 267 of 01.11.2013 on amending the Law 397-XV of 16.10.2003 regarding Local Public Finances.

<sup>10</sup> World Bank. 2013. Moldova - Public expenditure review: capital expenditures - making public investment work for competitiveness and inclusive growth in Moldova. Public Expenditure Review (PER). Washington DC; World Bank. <http://documents.worldbank.org/curated/en/2013/06/18433023/moldova-public-expenditure-review-capital-expenditures-making-public-investment-work-competitiveness-inclusive-growth-moldova>

<sup>11</sup> The Law on Administrative Decentralisation, 435, of 28.12.2006

<sup>12</sup> Global Study on Decentralisation Capabilities in the Republic of Moldova, ACE International Consultants, 2015, EU financed project, 2014/343505/2. Over 30% of Moldova's communities have less than legally required 1,500 inhabitants/Law on Local Public Administration, 2006.

<sup>13</sup> Analytical Study on Administrative-Territorial Structure for RM, Expert Grup, UNDP, 2010

<sup>14</sup> Report on The Territorial Administrative Structure Options for The Republic of Moldova, Adrian Ionescu, Sasa Drezgic, Iulian Rusu, UNDP, March 2015, p. 11

In 2014, the Government also adopted a National Programme on Public Services Reform, which explicitly states the commitment to improve the quality and accessibility of public services to the citizens of Moldova.

Good progress has recently been achieved in the field of E-Governance. The E-Governance Centre was established in 2010 and the Strategic Programme of Technological Modernisation of the Government (e-Transformation) was adopted in 2011. As a result, about 560 public services were revised and “optimised”: quality standards were developed and the business processes for each of the digitalised services were revised. Currently, more than 100 services are accessible on-line and free of charge for the population.

Joint Integrated Services Bureaus (JISB) were established in 30 of Moldova’s rayons, which act as one-stop shops. This model was appreciated by the Government as the “most efficient and functional model for decentralisation and de-concentration of public services”. A legal framework was adopted that formalises this new mechanism of public service delivery at the local level.

The National Decentralisation Strategy is based on the HRBA – Human Rights Based Approach principles – that ensure participation, accountability, transparency and non-discrimination. This is also the first national strategy that incorporates gender equality objectives as a state commitment.

The Law on the Special Legal Status of Gagauzia (Gagauz-Yeri)<sup>15</sup> does not provide for explicit division of powers between local and central authorities. Notably, although the Bashkan is a member of Moldova’s Government and the People Assembly of ATU, Gagauzia can propose legislative initiatives to the Parliament but so far only a few have been taken into consideration.

## Regional/Cross Border Cooperation

Since 2010, progress has been made by the national and regional institutions to achieve the national and regional development goals. In accordance with the data from MRDC, 79 projects amounting to about 831,170 million MDL were implemented by the National Fund for Regional Development in the sectors: water supply and sanitation (WSS), roads (RLR), solid waste management (SWM), energy efficiency (EE), tourism and private sector support. About 40 public investment projects in WSS, SWM, RLR and EE in public buildings amounting to approximately 170 million EUR are developed and endorsed at the national and regional levels. The NFRD and existing projects, however, currently cover only a third of regional and local development needs. Ensuring synergies of funding mechanisms and effective coordination at the national and regional levels are crucial to ensure effective implementation of the regional development policy. MRDC together with the national coordinator of foreign assistance (State Chancellery) but soon with the Cross Border Cooperation (CBC) office (an initiative – Governmental Decision of approving the statute of the CBC office is now under approval phase), is active in promoting the cross-border and transnational programmes for Local Public Authorities (LPAs), as a complementary tool for regional projects. Still, the co-financing request (usually 10%) remains a challenge for LPAs considering the local budgets’ capacities.

Participation in CBC enhances the capacity of individuals and organisations in dealing with concepts of integrated and strategic planning. Over 200 of Moldova’s institutions participated as partners and beneficiaries within 178 awarded projects under the three eligible programmes (during the last programming process 2007-2013). Applicants from Moldova and partners managed about EUR 37.5 million within the calls for proposals, however, the quality of implementation differs from project to project.

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<sup>15</sup> Law on the Special Legal Status of Gagauzia (Gagauz-Yeri), 344-XIII of 23 Dec 1994

The administrative and institutional capacity of authorities responsible for local public administration and cross-sector cooperation for local and regional development will be strengthened. This is to be accompanied with the adoption of the law on decentralisation and a follow up of the implementation in line with EU policy<sup>16</sup>.

Policies and incentives for inter-municipal cooperation for local public services delivery will be developed and promoted such as: subsidising public services based on common criteria and rules clear in the legislation; non-earmarked grants from the central budget, or external grants for the municipalities entering inter-municipal cooperation; transfers investment allocated by the higher administrative levels (region, state, EU) infrastructure needed to finance joint inter-municipal cooperation for providing services and operating transfers allocated by the higher administrative levels; the possibility, by law, to generate their own revenue by inter-municipal cooperation structures; fiscal incentives to enable collection of own taxes for municipal services.

Transparency of decision-making and increased participation of economic and social partners, citizens and civil society, is being pursued through appropriate mechanisms, such as participatory local planning and budgeting. Competencies in identifying and sanctioning local, illegal activities are also expected to be delegated to local governments, thus strengthening the authority of local actors. Equally important to public administration reform at the national and local levels is the government's commitment to adopt Performance Based Management systems.

## 4.2 Medium-term trends

In the medium term future, sector decentralisation strategies need to be adopted and implemented to ensure clarification of competencies and appropriate delegation

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<sup>16</sup> It is further critical to continue strengthening the new fiscal system, i.e. make regulatory changes and legal adjustments in the fiscal mechanisms to ensure a minimum, equitable level of service provision. This shall be coupled with constant capacity building for local governments in the implementation of the relatively new fiscal system.

of responsibilities, and bring essential administrative and communal services closer to the citizens. A comprehensive and multidimensional analysis on administrative-territorial reorganisation of the Republic of Moldova, particularly to include a roadmap and methodology, is expected to be developed. A legal framework based on Constitution principles and on the European Charter of Local Self-Governance is also planned.

Another medium-term opportunity relates to the dialogue with ATU Gagauzia that will be strengthened with a programme on sustainable structural, socio-economic and infrastructure cooperation scheduled for development<sup>17</sup>. Aside from this, MRDC has already initiated the procedures of institutionalising the Regional Development Agency in Development Region ATU Gagauzia (according to Regional Development Law). At a related level, CBC programmes grant Moldova (the whole territory being eligible) access to EU funds under favourable conditions, with possibilities of cooperation and exchange of experiences between neighbouring regions, countries, authorities and institutions. The creation of citizen service centres ('one-stop shops') for administrative services (for example as the ones in Orhei) is also expected to continue.

## 4.3 Strengths/opportunities/critical bottlenecks

The biggest challenge is the lack of a clear and coherent political and strategic vision on the relevance and processes of decentralisation and regional development. Regional policy is currently limited to a number of sectors and comes across as piece-meal. However, there are positive signs in environment, transport infrastructure, and energy efficiency. Excessive territorial fragmentation makes the communities weak from a fiscal / economic point of view and makes them dependent on state transfers. The small communities cannot deliver public services of adequate quality. Critically, the contribution that local governments play in stimulating growth, jobs and competitiveness (for example,

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<sup>17</sup> The Government of Moldova Action Plan for 2015-2018



through innovation, support to SME's and the digital economy) and in promoting social cohesion (through employment, education, support to disadvantaged groups and combatting poverty) is not being capitalised on. This is most notable in the lack of a common understanding regarding the roles and mandates<sup>18</sup> of state organisations on all levels. Similarly, inter-municipal cooperation<sup>19</sup> on local level between the State Chancellery and line ministries and of related budgetary mechanisms able to stimulate inter-municipal cooperation is not understood nor well elaborated. The situation is further exacerbated by a lack of capacity in both central and local public authorities to implement the new fiscal system (even though some capacity development has already been delivered). For example, the lack of systematic monitoring and controls, combined with scarcity of EU compliant project managers, are perceived as major impediments when accessing cross border cooperation resources. Similarly concerns relate to the Decentralisation Strategy for Regional Development and Construction which does not appear to be a sufficiently high enough priority for MRDC. For example, according to the report on the implementation of NDS, the working group did not meet in 2015.

Stakeholders also complain that the lack of an integrated territorial strategy covering the whole country is a major impediment. The absence of Chisinau from the overall approach is particularly critical, given the importance of the capital city as a potential driver of growth and the urban dimension of regional policy in general. At the same time, in analysing the discrepancies among the regions, priority is still given to the existing development regions.

The challenges faced by Moldova are not insurmountable. In fact, the five main structural problems identified<sup>20</sup> are common across Central and Eastern European countries with a plethora of regional experiences on how best to solve them:

- Creating a clear vision / conceptualisation of the role of the state [organisations];
- Overcoming the vestiges of the previous system that limit the re-orientation of budgetary allocations;
- Improving 'vertical coherence' and improving the scope of the bureaucracy to improve reliability and predictability of government actions;
- Strengthening inter-sectorial coordination to implement strategic reforms;
- Working against mechanistic approaches to public administration (by promoting performance and results based management).

The biggest challenge, however, is the delays in implementing fundamental reforms in Moldova as a whole. Interrupted progress at the national level, combined with the political crisis that saw four different governments installed in less than a year, has undermined the political incentives for local governments to pursue ambitious reforms. In short, a leadership crisis in the centre undermines support for reform at local levels.

The political and social sensitivity of the decentralisation reform remains to be a major challenge for several Cabinets. During the past two electoral cycles the government did not start public discussions on the need for such a reform due to political sensitivity. However, some concrete steps in line with the NDS have been taken (such as in implementing the new fiscal system and promoting inter-municipal cooperation). Sector-decentralisation in education, health, social assistance, communal services, and public property management entails a big change in the control over resources, responsibilities and mandates of different tiers of government.

<sup>18</sup> Competences for level 1 and 2 LPAs are established in the Administrative Decentralisation Law 435 of 2006, Local Government Law 436 from 2006, and Local Public Finance Law 397 from 2003. The comparison of competences and areas of activity in the laws shows overlaps and sometimes gives rise to confusions and contradictions. The competences were formally set without establishing financial resources to accomplish the local duties.

<sup>19</sup> The government planned to develop policies and incentives for inter-municipal cooperation for local public services delivery in 2018 and acknowledges that systemic and continuous capacity development is needed for local government public service delivery through inter-municipal cooperation.

<sup>20</sup> UNDP paper Rebuilding State Structures

Implementation of the Decentralisation reform entails a systemic transformation of governance, involving change in power structures and control over resources. The administrative-territorial reform, aiming to reduce the country's excessive fragmentation and promote consolidation of small and economically weak units into bigger and stronger regions, might create political and social tensions simultaneously. For example, the impact of the fiscal decentralisation might produce a negative impact on small communities in the short-term (about 17% of the communities will be losing as a result of fiscal decentralisation).

In this space, there is a need for decision makers to consider alternative scenarios for reform in what is an unpredictable political crisis. UNDP has already proposed to the four alternative scenarios for territorial administrative reform in 2015,<sup>21</sup> another analysis of options is planned to be developed by the government for 2018.

Decentralisation and regional development are causally interconnected, meaning that continued reforms and capacity building need to go hand in hand if they are to deliver value.

Decentralisation of patrimony aims at completing the delimitation process of state property from the TAU, the property from public and private sector (including municipal / district enterprises), and providing full, efficient, effective and responsible management mechanisms of property. The decentralisation of the management on the national public property is a key factor for real implementation of decentralisation reform. Still, it seems not to be a priority for the Government. According to the GoM Action Plan for 2015-2018, no specific activity is mentioned in this regard. The Property

Delimitation Sector Strategy and the drafting of the Law on Delimitation of Local / State Property was probably the most complex supported reform attempt aside from the territorial and administrative reform. This reform area is not only complex, but depends on many vested interests. It lacks a clear definition of public property and clear political decisions on the criteria for the property delimitation are missing. The Law is still not adopted.

Civil society remains weak, both at central and particularly at local level in Moldova, undermining the possibilities of good governance at the local level. Whilst a normative framework is in place, civil society organisations (CSOs) are not active in monitoring the implementation of government policies. Even in rare cases where they are, few of their recommendations are actually adopted. Moldova's CSOs also heavily depend on external sources of financing<sup>22</sup>.

The lack of involvement from central government, heavy propaganda from the East and a predominant history-driven mentality forces the population and leaders of Gagauzia to be cautious in European Integration. Positive visible results that match expectations of ATU Gagauzia could serve as an encouraging example for the population from the left bank of the Nistru river and leadership. Another positive that could be built on is that administrative interaction between the Administration of ATU Gagauzia and the Central Government of Moldova has improved. The Parliamentary Working Group for Gagauzia was established in November 2015 and convened for the first time in February 2016. The working group represents the mechanism for cooperation between the People's Assembly of Gagauzia and the Parliament of Moldova, being a forum for the discussions of general topics related to the proper function of the autonomy, guaranteeing implementation of the Law on Special Status of Gagauzia.

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<sup>21</sup> Currently proposed scenario - Mandatory amalgamation of first level local government, and creation of a regional level government instead of the current rayons, in 2015. Short term pain, the government has just been elected. Needs a year to put the pieces together, and then work on capacity building. In spite of the short term difficulties, this scenario will have the maximum impact in terms of real improvements and ensures highest positive visibility before the next round of elections.

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<sup>22</sup> Republic of Moldova EU Country Roadmap for Engagement with Civil Society 2014- 2017

## 4.4 Key Challenges to be addressed within 2017–2020 period and beyond

The following key challenges are cited by stakeholders as needing greater attention during the 2017-2020 period:

- Regional Development Agencies, Regional Development Councils, Local Authorities, non-governmental organisations and other regional and local development partners require substantial capacity development
- Implementation of the territorial administrative reform (e.g. NUTS)
- Further legal adjustments in fiscal decentralisation areas
- Advance implementation of sector decentralisation roadmaps (with line ministries and Local Governments)
- Regional development to be included as a priority in Moldova 2020 (as an amendment or in the successor plan)
- Defining clear and coherent political/strategic orientation on relevance and processes of decentralisation and regional development for the period 2016-2020
- Improving the legal and regulatory framework for the main decentralisation and regional development areas: administrative capacity of local governments, clarifications of competences and fiscal decentralisation
- Operationalising the regional statistics platform at the national and regional levels
- Ensure effective/results-oriented implementation of the NSRD and RDS 2016-2020
- Putting in place an effective (policy and funding) coordination mechanism between line ministries and binding procedures regarding the role/mandate of public institutions involved in regional development
- Establishing flexible and effective structures for regional development in Chisinau and Gagauzia, and funding related regional development projects
- Application of the shared management principle - that foresees the sharing of responsibilities among all participating countries (Member State and Partner countries) in issues like management, audit, control and recovery - is a major challenge
- Supporting broad access of the regional and local authorities to CBC and other EU programmes through assisting and facilitating their process of applying and implementing strategic partnership projects, and contributing to the achievement of the country's regional development objectives.

## 5.

# Justice and Home Affairs

## 5.1 Introduction and Context

The justice and home affairs sector, which comprises of the justice, law enforcement, security, migration, human rights and minorities sub-sectors is, by all accounts, the most problematic in the Association Agreement. Trust in State institutions in charge of these fields is very low. According to the Institute for Public Policy<sup>23</sup> (IPP) poll of April 2016, trust in the justice system amounts for 10,3%, well behind trust in the police (25,8%) and the army (32,5%). Justice and law enforcement structures are widely seen as politicised and corrupt.

The institutions in the field of justice are some of the best in Moldova in terms of financing and human resources. This has not, however, translated into public confidence in their willingness to improve transparency, accountability and service delivery. The police forces and Information and Security Services (SIS) have reasonably good resources and have proven that they are able to cope with limited challenges. The Bureau of Migration and Asylum is now also adequately staffed. However, the defence forces have been criticised as being under-resourced and neglected.

For most of the areas covered by the Justice and Home affairs sector, Moldova does not suffer from a lack of policy framework. Moldova is part of the European Convention of Human Rights. Its constitution states that it is governed by the rule of law, guarantees human rights and specifies the functions of various judicial institutions.

Numerous plans and strategies for reform have been adopted and many remain under implementation (for example, the 2011 Justice Sector Reform Strategy and action plan to 2016 and 2010 visa liberalisation action

plan). "Comprehensive" reform of the police services was voted into action in December 2012. The policy matrices for justice and police reform, as well as the Association Agreement, detail a comprehensive approach and with multiple activities. The 2016-2020 strategy for police development was adopted on 30 March 2016.

Draft strategies are also currently being developed in the field of national security<sup>24</sup> and minorities<sup>25</sup>, as well as an action plan on human rights (following up on the 2011-2014 action plan).

The main challenge in the sector is not in the policy frameworks but in implementation. Adoption of strategies is, therefore, not a measure of success in this sector. Worryingly, this has given rise to the revision of policy frameworks when objectives are not reached. There are currently few laws consistent with EU best practices.

In the Association Agreement, this sector is broadly covered under Title III, bearing in mind references to security in

<sup>23</sup> [http://www.ipp.md/public/files/Barometru/BOP\\_04.2016\\_prima\\_parte\\_finale-r.pdf](http://www.ipp.md/public/files/Barometru/BOP_04.2016_prima_parte_finale-r.pdf)

<sup>24</sup> <http://www.army.md/inf/SSN%20Proiect%20transmis%20Guvern%2025Martie10.pdf>

<sup>25</sup> Strategiei de Integrare a Minorit ilor Na ionale a Republicii Moldova (2015–2020) <http://particip.gov.md/proiectview.php?l=ro&idd=2373>

Title II. The Association Agreement makes it clear that democracy, respect for human rights and fundamental freedoms, and the rule of law lie at the heart of the project. It also sets, as a priority, the establishment of “effective functioning of institutions in the areas of law enforcement and the administration of justice” and promotes gradual convergence on the Common Security and Defence Policy (CSDP) (article 5) as well as cooperation on various security issues of mutual concern (non-proliferation, anti-trafficking, terrorism). However, the Association Agreement provides very few specifics on reforms that should be adopted. An exception to this is the protection of personal data<sup>26</sup>. The Association Agenda gives much more detail on reforms in the field of justice than in other sectors.

## SUB-SECTOR ANALYSIS

### Justice and rule of law

The judicial system is one of the most discredited institutions in the Republic of Moldova. According to the IPP, trust in the judicial system stands at 10.3%. The Justice sector was recently criticised for several high profile cases of alleged selective justice. There is no equal and transparent system for recruitment of judges. The National Institute of Justice has weak institutional capacities. A lack of competition for the appointment of judges, as well as the adoption of legally questionable, non-transparent and unmotivated decisions by the Superior Council of Magistracy and sometimes far-fetched interpretations of the Constitution by the Constitutional Court have only raised doubts about the prevalence of the rule of law. There are no clear guidelines regulating the procedures and criteria for the appointment of judges by the Superior Council of Magistracy. Reform of the sector, as detailed in the strategy and action plan is seriously delayed. Various laws and amendments were voted in at the end of February 2016 (including on Prosecution Service). However, stakeholders are not yet confident that these laws and amendments will be properly implemented and even if they are, it is unclear

whether they will deliver a positive result.

An Integrated Case Management Programme and an audio recording system of court sessions have been introduced to increase the efficiency and effectiveness of the judiciary. The system of random distribution of cases within Courts is manipulated and in many cases the responsible persons are not held accountable. A law on optimisation of the judicial map was voted by the Parliament in 2016, according to which the number of the Courts should be decreased from 44 to 15. The optimisation process should start on 1 January 2017 with a transition period of 10 years.

Worryingly, as a result of previous anti-corruption packages in 2013, few judges have been sued. Even when they were, it was only for minor affairs in comparison to the evaluated amount of corruption. There is also no final judgement of conviction. In terms of judicial cooperation, in particular on criminal matters, (article 20 of Association Agreement) good progress was made in the framework of the visa liberalisation action plan, but the situation is still far from being satisfactory.

In February 2016, the Council of the European Union expressed its concerns about the lack of independence of the judiciary and law enforcement agencies of the Republic of Moldova. It underlines the importance of implementing reforms that ensure the independence, effectiveness, transparency and accountability of the judiciary and of the anti-corruption institutions. The reform of the prosecution service as well as the fight against corruption within the judiciary should be addressed as priority matters, including through merit-based and transparent recruitment and promotion of judges.

### Migration, Asylum and Border Management

Moldova is a country significantly affected by emigration, which is triggered by poverty and lack of socio-economical perspectives, both seasonal and permanent. According to the International Office of Migration, it is likely that up to 600,000 citizens of Moldova reside outside the country. Remittances represent between a quarter and a third of GDP. Around 20,000 foreigners are resident in Moldova and there are a small number, although gradually increasing, of

<sup>26</sup> Annex 1: Directive 2006/24/EC of the European Parliament and of the Council of 15 March 2006 on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks

refugees and asylum seekers (389 and 164 respectively). The management of national migrants is challenging due to lack of coordination and the existence of competing interests with different actors providing different figures. Data protection remains an issue and the delivery of multiple travel documents by Registru proves poor controls.

Moldova was the first country in the Eastern Partnership to obtain visa facilitations thanks to various steps taken by the government to improve border management, asylum and migration procedures. Controls at the border with Romania and at the airport are effective. However, adequate border control depends on cooperative efforts with Ukraine at that particular border, which lies out of governmental control (central – Transnistrian - sector of the border). The EU Border Assistance Mission (EUBAM) has been involved in monitoring and building capacities at the border for over 10 years.

### **Security Sector Reform**

Whilst there is a frozen conflict in Transnistria, where Russian troops are still stationed, security policy reform has been largely neglected since 2011. Given the status of neutrality enshrined in the constitution, there is political reluctance to articulate policy, exemplified by the delays in validation of the draft strategy for national security. The EU shares a strong common interest in cooperating with Moldova on untraditional security issues (such as terrorism, non-proliferation, and export of illegal arms). Illicit trade of all sorts of materials (for example, uranium, weapons) is, unfortunately, a relatively well documented problem.

Moldova's armed forces are not up to regional standards, including those of the Transnistrian militia. Critics cite poor leadership, insufficient and outdated equipment, still undertrained soldiers (particularly recruits), doctrines not adapted, low morale and wages that are more symbolic in nature than market related. All of these issues force the armed forces to find secondary sources of income.

### **Police and Law Enforcement**

Moldova's police force suffers from a reputation of being affected by corruption and politicisation. A comprehensive

police reform bill of December 2012 mostly focused on changing its structure by decoupling policy making from management of daily police work. A downsized Ministry of Internal Affairs was charged with only policy related functions, whereas a newly created General Police Inspectorate was tasked with carrying out actual policing. Its two main departments: Investigations and Patrol are at the core of the new structure. However, in some departments, reforms appear cosmetic at best. Further, questions remain on the articulation between competences of the police and the carabineer forces.

### **Human Rights and Minorities**

In 2011, Moldova passed the universal periodic review on human rights (UPR) and received 123 recommendations. These include recommendations concerning domestic violence and human trafficking, discrimination, ill treatment and torture, Roma people, request to clarify the events of April 2009, protection of vulnerable groups and access to justice.

Progress is slow in the field of human rights due to a lack of awareness and understanding of issues, resources, capacities and willingness to mainstream the topic in policy. The previous action plan on Human Rights for 2011-2014 was not properly implemented and civil society organisations lack the capacity and necessary organisation to be an effective counter-weight. Moldova is periodically condemned by the European Court of Human Rights, mainly for length of proceedings and conditions of detention. This problem is acknowledged by the government in the Moldova 2020 strategy: "Observance of human rights, especially in criminal justice, remains to be an aspiration". A People's Advocate (Ombudsman) was appointed in April 2015, but its "profile, tasks and responsibilities" should be more clearly defined according to the Peer review<sup>27</sup>.

Gender related rights remain controversial in Moldova and are not advocated. Special considerations should be given to Violence Against Women (VAW) and trafficking. Violence against women is largely underestimated by the

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27 Peer review p. 20

public authorities and disregarded by the police. A law on non-discrimination was adopted but is not fully understood by the courts responsible for its implementation and is being contested by segments of the population (especially referring to LGBTI). Women remain underrepresented in politics (21% of deputies, less than 20% of elected officials at the local level).

Ethnic minorities represent around one third of the total population but feel underrepresented in the collective self-image of the country. More effort is needed to promote the teaching of the state language and of minority languages. Some progress has been made towards the Gagauzian community with a discussion going on regarding the implementation of the law on autonomy. Community mediators have been established to help the Roma communities, which face specific needs.

Mother tongues more than ethnicity as such represents the main attribution of culture for minorities. As a main task, a new Strategy on diversity and inclusion should pursue an effective policy on languages in accordance with national and international frameworks, fully respecting the rights of persons belonging to national minorities. Special attention should be given to the education and the state language, applying the efficient methodology dedicated to foreigners, which makes the effective acquisition of the language possible. It is important to acknowledge that in order to make this approach work, sufficient funds, including from those from international and state budgetary sources must be available. The adoption of the "Strategy on Integration of National Minorities in Moldova" which has been elaborated in close cooperation with the High Commissioner for National Minorities of OSCE as well as the ratification of the Council of Europe's European Charter for Regional or Minorities Languages by the Parliament would be steps in achieving this goal.

An essential element of integration is the opportunity for all, including persons belonging to national minorities to participate actively in public life, namely in areas such as culture, economy and protection. Developing specific policies to ensure that all persons have equal opportunities

to be involved in various spheres of public life and governmental institutions is important. In this respect, it is necessary to encourage the participation of and promote opportunities for national minorities in State Administration and Public Service (namely on governmental, legislative, judicial level and even in law enforcement bodies).

It is also important to have an adequate education of history, tradition and culture of Moldova's minorities in schools throughout the whole education cycle. In addition there should be better media coverage for minorities via TV and radio programmes and documentary films.

The governmental institution's, dealing with rights of minorities, are weak in terms of the level of their responsibilities and capacity to make decisions. The existing bodies (Interethnic Relations Bureau and People's Advocate) have only limited and rather consultative competences and therefore limited effectiveness in the implementation of any measures decided upon.

The creation of conditions ensuring the restitution of churches and national minorities and community properties is indispensable.

Public perception points to a regression in terms of rule of law. Two contradictory trends are at work. Through increased interaction with Western partners, institutions are progressively modernising. However, during the last couple of months, the issue of control of State institutions by vested interests was only exacerbated by high profile cases of alleged selective justice and the lack of competition for the appointment of judges. The future is unpredictable and will depend on political evolution. It is, however, safe to say that any breakthrough in the medium term is difficult given the systemic nature of corruption.

The justice sector is characterised by contradictory trends. On the one hand, judges and prosecutors are becoming more competent (but still seem corrupt and/or politicised) and the legislation incrementally incorporated some of the recommendations of the EU/OSCE/CoE Venice Commission. On the other hand, it is hard to expect any



significant change in the near future, in the absence of political will, given the vested interests at stake. It depends mainly on the political will to change or not.

There is no sign that emigration is slowing. According to polls, 60% of adults are willing to emigrate definitively or temporarily. The continued drain of human capital, particularly of young adults, takes a high toll on local development. The amount of remittances is also decreasing due to the devaluation of the Russian ruble and economic downturn in host countries. Applications for asylum are increasing, especially from Ukraine and Syria but remain manageable for the time being, with Moldova being respected for its high acceptance rate of 80%. Moldova might become an alternative road of transit for migrants in the mid-term if the route through the Balkans closes down.

For the Security sector, since 2013, the participation in PKO and cooperation with Western partners has led to an increased dynamism. Given the existing low level, positive developments can be expected through increased dialogue and cooperation, provided that the country's foreign policy orientation remains in line with that of the West. Exposure to networks linked to international terrorism (mostly transit or hiding of militants trying to reach Syria) is a new phenomenon and may continue to be a risk.

The government has finally adopted a new police reform strategy for the period 2016-2020 and is now expected to implement it. A new draft action plan on human rights is also being prepared and is expected to be adopted in 2016 after a gap of two years. A strategy for integration of national minorities for the 2016-2020 period is also under preparation.

## 5.2 Key Challenges to be addressed within 2017–2020 period and beyond

The most important issue that is common across sub-sectors is the politicisation of state institutions. This is facilitated by the lack of independence of the judiciary and law enforcement agencies and systemic corruption at all levels. Poor coordination between state institutions is also an issue, but one that also extends to other sectors. A notable value in the sector is increased competence and professionalism, although it has not yet translated into better service and/or less corruption.

In the justice sector, a strength (and also a problem in some cases) is the increased competence of the various players. Since 2009, 30% of judges left the system and have been replaced by new judges. A generation of Soviet era judges and prosecutors has been replaced by a new generation, thanks to investments and contacts with the outside world. Nonetheless, widespread allegations of corruption and lack of integrity persist. Critical bottlenecks are endemic corruption at all levels and politicisation of judicial processes and decisions.

Even though salaries have increased, corruption is difficult to counter given the difference between official salaries and potential rent opportunities. The higher salaries did not lead to an increased level of accountability, due to serious shortcomings in the implementation of the law on disciplinary responsibility of judges. At the higher level, the problem is mainly political and represents resistance from Moldova's elite to relinquish control on the judicial system. Unless the power balances are addressed, progress is unlikely to be good. However, the quality of the policy framework, including laws and regulations, might be.

In the meantime, progress may be easier in areas such as juvenile justice or improvement of prison conditions, which are aspects that do not threaten the interests of oligarchs and the elite.

It is of utmost importance to strengthen the capacities of the National Institute of Justice. The recruitment system of judges is not fully transparent. The integrity of the candidates applying to be judges is not vigorously checked prior to recruitment.

Implementation of the visa liberalisation action plan has lost momentum since Moldova was granted visa liberalisation for citizens with a biometric passport. Commitments to better manage migration should, among other things be implemented through controlling the number of issued passports. The same can be said on the control of traffic with Ukraine through Transnistria. There is a need to step up cooperation with Ukraine, especially in view of the phasing out of the EUBAM mission.

Although the human resources to manage migration and the borders appear adequate for the moment, a bottleneck may appear in the middle-term in case of more intense migratory pressures.

Moldova's security services face many shortcomings due to lack of capacity and resources. A change of mentality is needed if those problems are to be addressed. There are gaps in terms of analysis and understanding the sector's global trends. Political dialogue on these topics is recommended.

The defence sector is deeply underfunded with little hope for a change in the near future. The only upside is that Moldova's armed forces are ready to participate in overseas operations if logistical support is provided. Leadership is poor and lacks the experience to carry out reforms or even existing functions. The higher leadership is politicised, with little cohesion, which hampers the construction of a professional military administration.

The police and law enforcement agencies suffer from multiple weaknesses including unrealistically low wages which encourage corruption, a lack of technical equipment (cars, instruction material), a lack of inter-service cooperation, weakness of the initial and specialised trainings in some domains (drug trafficking, preparation of judicial operations, use of modern technics of investigation, transnational crime), poor training opportunities for managers, a lack of strategic analysis of their own criminality, and a low level of professionalism among the carabineer forces.

There is also a lack of interaction and communication with communities to prevent and deter crime. Female victims of violence report that there is a lack of police interest in resolving such crime (74.8 %) and inefficiency in providing services (57.7 %), that they were treated rudely, and that there is ignorance and lack of professionalism (32.5 %)<sup>28</sup>.

Some foreign partners complain that this translates into a problematic reluctance to transmit information on shared priorities including related to drug trafficking, jihadists and trafficking of hazardous materials. Furthermore, an overly complex bureaucratic system does not meet the needs and expectations of decision makers (e.g. deadlines are missed, coherent information and reporting is hard to find). On the positive side however, the overall structure seems satisfactory and there is hope for more ambitious dialogue in the context of cooperation agreements with Europol, Interpol and in terms of border management.

A change of mentality is needed if Human Rights and Minorities issues are to be addressed. Special training should be provided to law enforcement institutions on the protection of Human rights, including the rights of children and women victims of violence, and to address gender stereotypes. Resources and capacities clearly constitute a bottleneck on specific aspects such as the state of the penitentiary system, and institutions for orphans and children with special needs. Under-representation of women and minorities in the leadership circles is a major shortcoming.

There is a need to make Moldova's society more coherent by better integrating and promoting all its components.

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28 Violence against women in the family in the Republic of Moldova, Chisinau 2011, UNDP, UN Women, UNFPA

# Social Protection and Health

## 6.1 Social Protection: Introduction and Context

Social protection and health feature prominently in the Association Agreement but they are also tangible essential services that Moldova needs to expand and improve. This chapter is split into two with Social protection covered first and then health second.

Moldova's social protection sector is undergoing major reforms aimed at transforming the categorical based social assistance into a more efficient poverty targeting system. The categorical social assistance is delivery of benefits to a specific group/category (ex: disability, veterans, Chernobyl victims), the targeted social assistance is a mechanism that tests the means of each beneficiary and provides benefits to the poor and vulnerable. The disability evaluation method is also changing from one based on medical criteria to a social model. Social service provisions shifted from institutional care to community care and expansion of the social services web now includes new vulnerabilities. However, finances for the sector are decreasing; the deficit of the social insurance fund reached a critical level, social infrastructure is not adapted to the needed changes.

While vulnerabilities increase and transform, the pressure is increasing on the social protection system, the social protection share of GDP is decreasing. The ratio of social protection expenditures to GDP was 12.4 % in 2014<sup>29</sup> (decreasing trend). At the same time, the social envelope slightly increased lately accounting for 14.1 billion MDL in 2014. In comparative terms, Moldova's social spending is still low. The ratio of public expenditures in the social sector (health and social protection) in Moldova was 18.6 % in 2012 (13.2 % social protection and 5.4 % health); the average ratio in EU-27 in 2012 was 29.8 %. About 70% of social expenditures

goes to social insurance (combined the social insurance fund, and on budget expenditure account for 10% of GDP) and this share is continually increasing. The state budget has to compensate for the deficit of the social insurance fund (1 % of GDP) thus shrinking the social envelope and continuing underspending on social assistance.

Total social assistance spending in 2014 was 4.6 billion MDL. Most social assistance expenditure is on social assistance benefits (80 %) and only a small portion on social services (20 %). One third of social spending is on the elderly (almost 507 thousand persons and low in comparative terms); the remaining amount is distributed among other vulnerable groups (poor, disabled, households with children, etc.).

Social protection is a proclaimed priority in all governing documents. The National Development Strategy Moldova 2012- 2020, states as one of the priorities having a fair and sustainable pension system. The Programme of the Government of Moldova 2016-2018 set six priority directions within social protection. Social protection is also addressed in the AA, which emphasised in particular *social policy* (Title IV, Chapter 4), *protection and promotion of the rights of the child* (Title IV, Chapter 27), as well as several aims of *political dialogue* (specified under Title II, Article 3.2 (e)).

However, there is no overarching social protection strategy in the country that sets neither priorities nor a medium or long term vision. Results tend to be fragmented and not

29 The 6% decrease in GDP should be considered

sustainable in the current policy environment.

At the sub-sector level, The Child Protection Strategy for 2014-2020, Strategy for Decentralisation of Social Service and National Programme for gender equality 2010-2015 are all up to date. The Social Inclusion of persons with disabilities sub-sectoral strategy expired in 2013. A new Action Plan on social inclusion of persons with disabilities 2017-2022 is being developed. A sub sector document is the national programme for gender equality 2010-2015. The Molls is preparing the changes to the legal and regulatory framework<sup>30</sup> (AA provisions) in the area of prevention and combating domestic violence. The new law ensures the approximation of the national legal framework to European standards. Efforts are also made to strengthen the system for collection of disaggregated data on cases of domestic violence.

The regulatory framework for social provision is set by three main laws: 489 from 1999 on public social insurance, 547 from 2003 on social assistance and 123 from 2010 on social services. The primary legal and regulatory frame related to AA is presented in Annex 1.

## SOCIAL PROTECTION: SUB-SECTOR ANALYSIS

Major sector reforms are being implemented, with relevant support; good international practices could be integrated, as well as measures to make the system more efficient. Within the current social envelope, there are possibilities for savings and re-direction of funds to other underfinanced sub-sectors. The sector is slowly moving from a redistribution mechanism to a more inclusive system, offering new kinds of support to diverse groups of vulnerable population in a more complex and integrated manner. The economic decline, however, is having a major impact on the social protection system putting pressure on the government to respond in a more flexible manner to increasingly challenging and growing social problems. The sector urgently needs to adopt a clear and transparent

approach to prioritisation.

## Social Insurance

The role of social insurance is to guarantee an insured income when this income was lost due to sickness, unemployment, old age, child care etc. The social insurance system is based on the cross generation solidarity approach (pay-as-you-go). Social insurance consumes about 18.2 % of the total national budget; there are 15 types<sup>31</sup> of pensions delivered to about 600,000 persons. The payments are covered by the State Social Insurance Budget and State Budget. The average pension was 83 %<sup>32</sup> of the subsistence minimum and about 90 % of pensioners receive such a pension (2010). The European Social Security Code states that average replacement rate should not drop below the 40% threshold; this rate in Moldova is 26.7 % (39.2 % in 1999) and studies<sup>33</sup> show that it will drop dramatically in the following years. This results, not only in a drop in the population's living standards, but also puts pressure on social assistance<sup>34</sup>. The low pension is a consequence of a deficient calculating formula, which has not been adjusted in the last income to CPI<sup>35</sup>.

The coverage (by pension) rate in Moldova is also critical; the current system covers about 30 % (35.4 % in 2006) of working-age population but most of the old-age citizens. Since 2002 the number of contributors shrank by 40% with a decreasing trend. This is due to a low and decreasing formal employment rate (39.6 % in 2014 with 15 p.p. lower than 2000), as well as low wages<sup>36</sup>. The drop in formal employment rate is explained by: (1) significant labour migration (346,900 in 2014 compared to 195,800 in 2000), (2) big share of the informal economy (50-60 %)<sup>37</sup>. The situation is worsened by an aging population phenomenon (the share of elderly over 60 years old will double by 2050<sup>38</sup>). This will affect the already high dependency rate of

30 Draft law on amendments to the legislation related to Domestic Violence

31 Old age pension for different categories, disability pension, survivorship pension etc (Raportul Social Anual 2014, MLSPF)

32 Raportul Annual Social 2014, MLSPF, page 54

33 WB, Expert Group, 2014

34 By increasing the poverty related benefits

35 The case of Moldova is singular case due to so called non-valorisation of past earnings.

36 The lowest average wage in EU

37 MLSPF Informal sector analysis 2014

38 Population Green Paper UNFPA Moldova

1.2 in 2014, which means that the number of contributors to beneficiaries is almost equal, and it will go further up reaching the one contributor to one beneficiary rate by 2040. The international experience shows that minimum admissible ration is 4 contributors to 1 beneficiary.

The current pension amount is insufficient and the number of contributors is dramatically falling and will continue to fall. The contributory base (insured wages) is minimal and the pool of insured persons is shrinking, which will prove a systemic risk to the viability of the social insurance system. In this regard, sustainability of social insurance systems is also addressed in the AA (Article 32 (g)) by encouraging exchange of information and best practices in this area. There are efforts to ensure social assistance portability expanding the social agreements with other countries; the effects of these agreements are yet to be seen.

The reform of the social insurance sector needs to be a high level priority and translated into transparent, quick and efficient action. To be done in the short term: abolish preferential treatment, increase retirement age and control incentives to reduce the informal economy. Expand coverage of the social insurance system by reintroducing mandatory contributions for the agriculture sector (men and women) (currently this large part of the economy is not part of the insurance system), integrate self-employed and family support workers.

In the medium term, the pension calculation formula should be revised in order to adjust the contribution to the fluctuations of the CPI (so called valorisation). This is an expensive measure and it might prove financially unfeasible, it is the most important disincentive to contribute to the scheme. In the long run, introduction of the second cumulative pillar or similar solution could be considered. A pre-requisite of this intervention is stable financial market in the country and solved problems of the current system. Any intervention in the social insurance system should be properly analysed from the ex-ante impact assessment.

## Social Assistance

Social assistance is supposed to provide temporary release, promote social inclusion and eradicate poverty. About half of

the social assistance goes to persons that were not eligible for the social insurance pension (insufficient contributions).

## Social payments

Provision of social payments is fragmented, which results in small benefits of little impact on beneficiary's well-being (except the means tested scheme). There are many social payments (indemnities, allocations, compensations, aid)<sup>39</sup> that go to a large variety of vulnerable groups (elderly, disabled, poor, veterans, Chernobyl accident victims, military, etc.). The mix of payments makes the system deficient: (1 fragmented and small payments have no tangible impact; (2 overlapping, transfer of small amounts, makes the administration difficult and expensive; (3 creates tension in society because of payments distributed to not so poor layers of population (analysis demonstrate that many benefits go outside of the first and second quintile of the population).

One of the most important reforms in the sector was the introduction of a scheme that will target the poorest households. It sets a minimum monthly guaranteed income (MMGI) and grants a benefit that consists of the negative difference of a household's income to this level. The total number of beneficiaries in 2014 was 56,500 persons of the means tested monthly benefit, plus 133,000 persons of the support for winter period benefit, the average amount was 648 MDL per month. This is an efficient instrument. However, there are few aspects that should be considered when carrying out the reform: (1 the insufficient MMGI<sup>40</sup> as to make a true impact on poverty); (2 dependencies on the system created by the fact that a household has no time restriction to benefit from the scheme, this also creates a lot of reticence from the general public. The AA prioritised poverty reduction and enhancement of social cohesion (Article 32 (a)), specific technical adjustments to the scheme being mentioned: improved method for estimation of agriculture income, adjustment of proxy filters, and link with MSAS data base. All these measures should be constantly assessed and adjusted.

39 (i) State social allowance (56,000 beneficiaries, benefit of 339 MDL/month); (ii) state monthly allowance (36 ,000 beneficiaries and an average benefit of 340 MDL/month); (iii) case allowance (16,000 beneficiaries and 566 MDL/ month), 2014

40 The MMGI is currently under revision, it was 900 MDL/month against 1556 MDL/month subsistence minimum

The delivery of social payments should be considered from the perspective of a broader reform, which will analyse the needs of a particular group and match these needs with the paid amount. Reforms should continue to make the scheme more efficient through better targeting (some benefits should be abolished due to duplication, ex: material aid, some poverty filters could be introduced for particular groups), less fragmentation and overlapping, aimed at building resilience not dependency. Demographic trends should be considered when reforming the sector so as to respond to the growing number of the elderly population.

## Social Services

Social service is a form of support to vulnerable people aimed at insuring an independent living, facilitating access to activities and various aspects of daily life (education, labour, health, recreation) and contributes to social inclusion. In the last few years, there were significant efforts to develop and improve the existing network of social services. Still, the system does not respond to existing needs with proven quality and efficiency. The social services sub-sector is heavily under financed, the burden being on local authorities but taken over by civil society and donors. No analysis of the social service delivery in Moldova is available. It is not known how many beneficiaries are in the county, how many services and providers, and how much a service costs. The Nomenclature of Social Services was done (2010) which divides the social services into three main groups: primary social services (four types), specialised social services (30 types) and highly specialised social services (seven types), this should be revised as per the new law on social services and provide new classification criteria.

The Social Services Decentralisation Strategy states that about 428,000 persons require social services in the country and about 17 % (2011) of this need is currently covered. The same document states that the system is fragmented. Service delivery is not of consistent quality and availability over different geographical areas, often highly depending on donor support and political will. Lack of a complex strategy of service development accentuates these disparities. There are attempts, at local level, to develop these strategies; but documents are also fragmented, based on one or another vulnerable group. The lack of a

coherent method of needs assessment of social services within the territorial profile is the main bottleneck in development of a relevant and sustainable social services system. The unit cost per services should be determined, the gap analysis should be carried out and incentives for private actors' involvement considered. One solution would be defining a critical set of services and making sure these are financed by central budget (ex: services for children without parental care, elderly with no family support and persons with mental disabilities).

There are two particular vulnerable groups that are mentioned in the AA, vulnerable children (Title IV, Chapter 27) and persons with mental disabilities (Title II, Article 3.2 (e)). While new services are being put in place to respond to particular needs of vulnerable children (care outside residential institution, services for children in contact with justice system, children with disabilities) there is less progress in offering services for the second group (the community home<sup>41</sup> (three units) have been established but the majority of persons remain in residential care<sup>42</sup>).

Social infrastructure should be developed so as to ensure relevance, quality control, efficiency and continuity of support through procedures, institutions and recourses in place. Some procedures are in place: accreditation, regulations and minimum standards (not for all services). Nevertheless, some of these are not fully functional and others are missing (ex: licensing, costing, outsourcing to NGOs). There are new institutions in place (Social Inspection, National Committee for Accreditation of Social Service Providers) and some functions have been redirected to existing institutions. Alternatives are insufficient at all levels and dimensions: (1) human resources: professionals, social assistants to do the needs assessment, etc., (2) informational (data and for policy design, informational systems, and inter-connectivity to relevant existing sources) and (3) critical lack of funding at all levels.

41 Community Home care for persons with severe mental disability

42 During the last five years about 200 persons with disabilities have been deinstitutionalised and other 105 persons with disabilities entered the residential institutions; about 45% of deinstitutionalised persons have been transferred in community based services (community homes and family type services, still 2300 persons with mental disabilities remain in the residential care).



## 6.2 Key challenges to be Addressed within 2017–2020 period and beyond

The following priorities are commonly identified by stakeholders as needing urgent prioritisation for the medium term future:

- Reforming the pension system in Moldova, by increasing equity and the contributory base and accordingly expand the pension level (implementing provisions of the AA and MD 2020)
- Reforming social payments by introducing filters that will redirect the funds towards the poorest groups of the population (as per AA provisions). A thorough analysis of the targeting efficiency of all benefits should be done and inefficiently used funds redirected to a means tested cash benefit scheme. At the same time, measures to reduce dependency on the scheme should be taken and employment services put in place.
- Holistic approach to development of community based social services, feasibility analysis of social service development in the rayons/regions should be done and measures to compensate the uncovered needs taken, a critical set of social services could be financed by the state budget (for instance vulnerable groups such as children without parental care, persons with a disability and abandoned elderly could be considered).
- Supporting the disability evaluation model reform, development of evaluation protocols for child disability, revision and implementation of the protocols for adults. Analyse the progress and the bottlenecks of the reform; improve institutional, technical and human resources. Inform the general public about the reform and adjust the social payments and services to the new evaluation model.
- Strengthening human resources in the sector at all levels and implement new functions brought by reforms.
- Develop and strengthen the collection of data on sex, ethnicity, age, residence and disability in order to monitor and evaluate the social protection programmes.

## 6.3 Health: Introduction and Context

Moldova's health system aims to ensure universal access of basic health services with equity and solidarity in health financing<sup>43</sup> to all citizens. After the introduction of mandatory health insurance in 2004, total health expenditure increased from 8.5 % to 11.7 % of GDP in 2012, which is higher than the EU average of 9.6 % of GDP.<sup>44</sup> However, total health expenditures per capita expressed in US\$ purchasing power parity were almost seven times less than the EU average (US\$ 490 versus US\$ 3,346<sup>45</sup>). Out of pocket payments (OOP) on health reached 45 % of total

health expenditures, which is the highest share followed by mandatory health insurance (40 %), other private expenditures (10 %) and other government expenditures (5 %). In 2014, 80% of OOP on health were spent on medicines, this share increased to 82 % in the rural area<sup>46</sup>, where living standards are generally worse. Though expenditures on medicines constituted 33 % of total health expenditure in 2012, the share of public expenditure on medicines represented only 6.4 % of total expenditure on medicines, the latter indicator being around 50 % and more for the most of the European countries<sup>47</sup>. The health sector is perceived as one of the most corrupt areas, 72 % of people consider that money, gifts and/or personal relations are necessary to solve problems in health

43 Health Systems in Transition. Republic of Moldova: Health System Review, World Health Organisation, 2012

44 Health for All database, WHO estimations, World Health Organisation

45 Health for All database, WHO estimations, World Health Organisation

46 Household Budget Survey 2014, National Bureau of Statistics

47 Health for All database, WHO estimations, World Health Organisation

facilities.<sup>48</sup> It was revealed that 38 % of patients made informal payments to hospital personnel, with an average amount of 100 USD.<sup>49</sup> Overall, low public expenditure on medicines in association with informal payments on health represent a serious financial barrier to health services and one of the key sources of inequity in health.

Both insured<sup>50</sup> and uninsured people may benefit from three levels of health care provided by a mix of predominantly public (99 %) and some private medical facilities. Though there is a network of available health institutions around the country, low salaries and rather poor working conditions contributed to an increased outflow of health professionals. As a result, the rate of Moldova's physicians and nurses per 100,000 of the population is 22 % and 30 % respectively less than the EU average. Considering a rather old age structure of health professionals (share of pensioners among working physicians and nurses is 31 % and 20 % respectively),<sup>51</sup> geographical disparities, and discrepancies between urban and rural areas, lack of qualified human resources represents a serious bottleneck, which will most probably worsen over time.

The Ministry of Health (MoH) owns the network of emergency care and national/republican hospitals that deliver outpatient care and tertiary inpatient services. MoH also ensures access to public health services for the population through a number of national programmes and 37 public health centres directly subordinated to the ministry. The ownership of primary and inpatient care was transferred from MoH to LPA, but the latter were not yet empowered with effective legal and financial leverages.

The health system's functioning is governed by a number of laws (Annex 1). Health was not included in the development priorities of the National Development Strategy "Moldova

2020". However, the current Government's Programme for 2016-2018 contains health among its social priorities. Additionally, a number of relevant long- and medium-term sector policies are currently in place, health being among few of Moldova's spheres having both the sector policy and the sector strategy in force. The Health Code was drafted and is expected to become the cornerstone of the health legislation. Both genders are covered by the on-going and drafted health policies. Women's health is specifically addressed by the national strategy on reproductive health (under development).

The AA acknowledges the relevance of "public health safety and protection of human health as a precondition for sustainable development and economic growth" (Article 113). The key sectors of collaboration are *public health* (Title IV, Chapter 21), *approximation of technical regulations, standards, and conformity assessment* (Title V, Chapter 3, Article 173) and *tackling illicit drugs* (Title III, Article 17). In accordance with the AA provisions, the Law 278 of 14.12.2007 on tobacco control was aligned to the Framework Convention on Tobacco Control of the World Health Organisation (Article 114 (f)). Law 42 of 06.03.2008 on transplant of human organs, tissues and cells was amended and corresponding by-laws were developed (Article 114 (d))<sup>52</sup>. The Regulation on early intervention on services for children with special needs was drafted (Article 138 (c)). The Regulation on food enzymes (Article 114 (c)) and the Regulation on early warning and quick response for prevention, control of communicable diseases and public health events were drafted and are available for public discussion (Article 114 (b)). The Action Plan for the implementation of the National Strategy for Prevention and Control of Non-Communicable Diseases 2012-2020 was approved only in 2016 and with a 55 % budget deficit (Article 114 (c)). There is an overall delay in strengthening the capacities of the public health sector, as well as in legal approximation of the national legislation to the *acquis* in several areas<sup>53</sup>.

48 "Corruption in the Republic of Moldova: perceptions and own experiences of businessmen and households", Transparency International Moldova, 2015 and Study on Corruption in the Healthcare Sector HOME/2011/ISEC/PR/047-A2, October 2013

49 "Health Monitor: access and quality of hospital services in the perception of the population from the Republic of Moldova, Results of the national poll", PAS Centre, 2011.

50 85% of total population in 2014

51 "Annual report for 2010-2014: achievements, problems, solutions", "Sanatatea" Trade Union.

52 With support of the EU-funded Twinning

53 Cosmetic products, pharmaceuticals, medical devices (Title V, Chapter 3, Article 173), circulation of narcotics, psychotropic substances and precursors (Title III, Article 17)

## HEALTH: SUB-SECTOR ANALYSIS

Expanding coverage with mandatory health insurance is a priority and essential to financial sustainability. Financial protection of Moldova's citizens should be strengthened through increased public expenditures on medicines. More efficient use of available resources at all levels of care is critical in this regard.

To address the deficit of human resources in health, a complex strategy was developed and approved, which comes to facilitate recruitment and retention of young staff. Capacities of nurses should be strengthened with further empowering of nurses at all levels of health care.

A thorough strategy to improve quality and safety of care should be developed and implemented, so that integrated health care is ensured to each and every patient.

A comprehensive inpatient care reform is necessary, with hospital regionalisation and a clear referral system. The share of acute beds should be reduced through cuts and/or by turning some into long-term beds, palliative care and chronic conditions. Eliminate redundancy and duplications in inpatient care, especially in Chisinau. The draft Hospital Master Plan addresses all these challenges in a comprehensive manner. Wide national consensus among MoH, LPA, health professionals and general population is necessary for successful approval and further implementation of the Hospital Master Plan

Ambulatory pre-hospital care should be strengthened to reduce the share of avoidable costly admissions to hospitals. The capacity of family physicians should be strengthened to improve their gatekeeping function and reinforce them as care coordinator. Community care services should be developed to improve patients' quality of life and social inclusion.

Public health reform needs to be accelerated to address non-communicable diseases through prevention and health promotion activities. Data quality and its integration at all levels of social protection and health care systems is also essential in improving policy and the effectiveness of implementation.

### Primary Health Care (PHC)

PHC is delivered by family physicians and nurses within both public and private medical facilities. NHIC contracted 277 PHC institutions in 2015, including 32 in municipalities, 243 in districts and 2 republican institutions. Over 30.5 % of the NHIC basic funds were allocated in this regard (including 4.5 % for compensated drugs)<sup>54</sup> which reveals quite a good allocative efficiency towards PHC services. There are pay-for-performance indicators within PHC, accounting for about 15 % of the overall payroll.

PHC has an important gate-keeping role by selecting and referring patients to secondary care, which is delivered by specialised outpatient care and municipal/district hospitals. In terms of overall access to ambulatory pre-hospital care, the Republic of Moldova is comparable with the EU average (6.2 versus 7 visits per person per year), it should be noticed that this indicator is 67 % higher in Chisinau (7.0) in comparison to the Southern region (4.2)<sup>55</sup>. Free choice of family physicians is possible.<sup>56</sup> Both insured and uninsured<sup>57</sup> people may equally benefit from family physician's consultations free of charge.

Ensuring high-quality primary health care was identified in the AA as a priority intervention for strengthening the public health system of Moldova (Article 114 (a)). Hence, the capacity of family physicians and nurses should be strengthened.

### Emergency Care (EC)

The EC is a centralised sub-sector run by the National Centre for Pre-Hospital Emergency Care (NCPEC), which was established in 2015 and is subordinated to MoH. NCPEC is placed at the top of the national network of emergency care consisting of five regional/municipal branches with 42 EC sub-stations (2-13 teams each) and 88 EC units (1-1.5 teams each) scattered around the country, which ensures quite uniform geographical coverage for a distance up to 25 km. Overall, EC is a 24/7 service aimed

<sup>54</sup> Report regarding the use mandatory health insurance funds in 2014, National Health Insurance Company.

<sup>55</sup> "Annual Statistical Report", National Centre for Health Management, 2015.

<sup>56</sup> Due to lack of family physicians, this choice is almost impossible in rural areas.

<sup>57</sup> May benefit only from consultations, but should pay for medicines.

at providing urgent care upon requests within ten minutes in settlements where EC units are present, or within 15 minutes in other settlements. For urgent life-threatening conditions EC is provided free of charge to both insured and uninsured persons. However, poor quality of roads and/or obsolete ambulances might be an additional barrier in this regard (1/3 and 20 % of available ambulance have a wear rate over 100 % and 50 % respectively).

In line with the Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and user rights relating to electronic communication networks and services, the universal 112 service has been launched in Moldova.

The EC sub-sector should take responsibilities to better address uncomplicated cases and diminishing unjustified transfers to hospitals. New equipped ambulances are needed and better coordination with hospitals and family physicians are critical for timely diagnosis and treatment.

### **Inpatient care (IC)**

IC is delivered by a network of 60 public hospitals composed of 45 secondary care hospitals (35 at district level and ten at municipal level) and 15 tertiary care hospitals (mostly in Chisinau); plus 11 departmental<sup>58</sup> hospitals and 14 private hospitals, including 12 in Chisinau, two in Balti. Though the total number of hospital beds per 100,000 inhabitants in Moldova is comparable to the EU average, the rate of acute beds per 100,000 is still 25 % higher in the country<sup>59</sup>. Out of the total number of 18,803 beds, 36% are in district hospitals, 36% - in tertiary hospitals and 18 % - in municipal hospitals<sup>60</sup> and 10 % in departmental and private hospitals.

The national average for hospital surgeries per 100,000 inhabitants reached 4,338 in 2014, which still places Moldova low on the WHO European region ranking.<sup>61</sup> However, this is more than twice lower in district hospitals in comparison

with the national average and surgical activity of municipal hospitals, raising concerns regarding the quality and safety of care provided in district hospitals.

Decreasing number of births, as a result of current demographic and migration trends, urges reconsideration of the perinatal care with revision of the minimum number of annual birth per maternity.

Although Moldova registered 0.6 % of post-surgery complications at national level,<sup>62</sup> (less than in the majority of EU Member States), the Standardised Death Rate for appendicitis, all ages per 100,000 is three times higher than the EU average.<sup>63</sup> This fact raises questions regarding the data reliability and the process of reporting post-surgery complications. In order to improve reporting and better address complications is necessary to shift from punishing practices to supportive supervision by more experienced staff/academia.

Though allocation of 50 % of NHIC basic funds to inpatient care is a sign of good allocative efficiency, the extended network of hospitals in such a small country reveals technical inefficiencies. The capacity of health professionals should be strengthened at all levels, with particular attention paid to district hospitals.

### **Public health (PH)**

PH is a priority area covered by the AA (Title IV, Chapter 21) and represents a service focused on improving health at population level. A new law<sup>64</sup> was approved in 2009, marking a shift from the old-style sanitary-epidemiological system to a more modern approach of public health, with emphasis on non-communicable disease control, health promotion and disease prevention<sup>65</sup>, but with limited resources and designated personnel for these functions. Nevertheless, recent approval of the Action Plan for the implementation of the National Strategy for Prevention and Control of Non-Communicable Diseases 2012–2020

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58 Not under MoH and managed by other ministries or departments.

59 Health for All database, WHO estimations, World Health Organisation.

60 "Annual Statistical Report", National Centre for Health Management, 2015.

61 Health for All database, WHO estimations, World Health Organisation.

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62 "Annual Statistical Report", National Centre for Health Management, 2015.

63 Health for All database, WHO estimations, World Health Organisation.

64 Law on State Surveillance of Public Health (No. 10-XVI)

65 "Health Systems in Transition. Republic of Moldova: Health System Review", World Health Organisation, 2012.

may serve as a good cross-sectorial platform to address non-communicable diseases.

PH system is composed of 37 centres, including two at municipal and 34 at district level, all of them being under overall coordination and methodological guidance of the National Centre of Public Health (NCPH), all the centres being finally subordinated to MoH. The PH system also has ten regional laboratories equipped with EU support. The NCPH laboratories serve as reference laboratories for district/municipal laboratories and some of them are accredited by international bodies. More rigorous assessment of these laboratories is foreseen under the AA with further integration into the European Laboratory networks.

NCPH is the national focal point for implementing the International Health Regulation (IHR 2005) since it is the body responsible for notification, evaluation and communication of health risks and emergencies. Along with the civil protection service, it also handles acute public health events nationwide, including within the National Extraordinary Public Health Committee.

The PH staff's capacities should be strengthened to ensure implementation of the sector policies and to cope with the AA provisions (Title IV, Chapter 21). It is critical to shift from old punishing approach to supportive collaboration with other sub-sectors/services.

## 6.4 Key challenges to be addressed within 2017–2020 period and beyond

The following priorities are commonly identified by stakeholders as needing urgent prioritisation for the medium term future:

- Legal approximation to the *acquis*, in particular on cosmetics, pharmaceuticals, medical devices, tobacco control, quality and safety of substances of human origin, communicable diseases.
- Strengthen the policy dialogue and collaboration between MoH and LPA to better address health challenges and reduce health inequity.
- Increasing the share of public expenditure on medicines to at least 50 % of total expenditure on medicines, in order to improve the access to good quality generic medicines.
- Implementation of effective mechanisms for health workforce recruitment and retention, with particular focus at rural areas and subnational level.
- Finalisation, approval and implementation of the Hospital Master Plan, with reduction of acute hospitals, development of chronic beds and better outpatient models for chronic conditions.
- Strengthen the capacity of the public health service by changing its current pattern from control-oriented to supportive collaboration with other services based on specific community needs.
- Enhancing health security by strengthening early warning systems, improving the preparedness and emergency response of the health system to emerging public health threats, in collaboration with EU partner organisations, including the European Centre for Disease Prevention and Control (ECDC).
- Development and approval of the national strategy/policy on quality improvement in health.
- Development of community care for chronic patients, including with mental health problems.

# Employment and Education

## 7.1 Introduction and Context

In the Republic of Moldova, there is an important contrast between poor rural and urban areas. The overall GDP growth in 2014 was 4.6%<sup>66</sup>, less than half the pace in 2013, with further decline in 2015. Foreign Direct Investment (FDI) has fallen significantly in the last few years, a trend amplified by the worsening regional geopolitical context and a poor performance of the economic environment. Productivity is among the lowest in the region, reflecting an incomplete transition and an economy dominated by the agriculture. This sector engages 25% of the labour force, high informal employment, as well as significant challenges in education and skills. Migration of the working-age population and billions in remittances, have helped to limit social tensions.

Low incomes do not constitute incentives to join the labour market but rather encourage grey economy. While the relative working poor decreased from 25% in 2006 to 15% in 2013, the trend might reverse when considering the decrease in remittances, budget austerity and inessential minimum wage (with 25% of wage earners receiving only 2/3 of median wage). In 2014, an estimated 385,500 persons had an informal job for their main income representing 32.5% of the employed population in Moldova. The informality is particularly high in agriculture (73%), followed by trade, hotels and restaurants and construction industries. Estimates show that 57% of the employed did not fully declare their salaries, with undeclared wages amounting to 9.3 billion MDL, or 45% of the total payroll in 2010. A large share of the informal jobs is in unskilled occupations. Sustainable growth and creation of decent jobs is envisaged only following deep cultural, structural and institutional reforms to make the economy more functional and less monopolistic and remittance driven.

While legal provisions exist to ensure social dialogue, the tri-partite social dialogue at the sector level is weak, and social bargaining mechanisms are not used adequately as a consequence.

The overall employment rate of the population is low, with a constant decrease over the last ten years down to 41%, caused by high international migration and unattractive (low-paid) local job opportunities. The official unemployment rate is low, except for youth which constitutes 7.2%. The internal geographical and sector mobility is low. The country experiences a shortage of skills and competences in many sectors. Approx. 22% of the labour force works abroad (2013). Meanwhile, the population is declining and ageing, with the share of children decreasing and the share of the population aged 55 and over further increasing. Rural poverty, a poor 'job creation economy' and distrust in state institutions, all tend to encourage emigration, which then impacts on domestic indicators. Most of the remittances are used for consumption purposes, and not for investing in the local economy. In order to meet the expectations of future employers and have a skilful and competitive workforce, there is a need of further

<sup>66</sup> World bank: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries/MD?display=graph>

investments in early childhood development programmes. The skills developed in early childhood form the basis for future learning and labour market success. The initial and continuing vocational education system rarely matches labour market requirements. Adult education and Lifelong Learning opportunities are limited. Important prerequisites such as qualitative vocational education are also often missing.

The Education Code and the Education Development Strategy for 2014-2020 provide a sound basis for new policies in the education sector including Vocational Education and Training (VET) and Higher Education (HE). Principles expressed in the strategic vision are in line with the AA. However, the main problem remains the implementation of the reforms foreseen in these documents.

The quality of work of schools varies, especially in rural and remote areas. Moldova's 15 year old pupils performed at the bottom of Europe in the OECD's Programme for International Student Assessment (PISA) in 2009<sup>67</sup>. Overall, 57% of students lack the basic levels of reading proficiency needed to participate effectively and productively in society.

The current system for teacher training and teachers' salary policy may not be best suited to ensuring provision of quality teaching. Overall, 15% of teachers are over retirement age. Out of date learning methods are the norm and modern child-centred approaches exceptional. The physical infrastructure of many public schools does not offer proper conditions for quality education. Most schools need considerable infrastructure renovation, including modern heating systems, water supply, new roofs, sanitary facilities and access for disabled persons.

From 2013 onwards, all providers of general primary and secondary education have introduced the per-capita financing system aiming at improving allocation of resources while extending school autonomy, calling for more accountability mechanisms, as well as corresponding capacity building of the Ministry of Education (MoE) and

school administration staff. Reliable and timely data on student performance in national and international assessments is a key tool in promoting this accountability. VET is still focused on theory, while any practical lessons are done in insufficiently equipped workshops. For most occupations, there are still no curricula reflecting the labour market needs, nor any modern learning materials. As a consequence, the education system is not providing the skills required by employers are usually not available in the labour market.

The Action Plan for Restructuring the Network of VET Providers (2015-2020) was approved and implementation is ongoing. The per capita funding mechanism foreseen as of 2016 has not been introduced. It is still pending nationwide introduction. Schools network will be rationalized.

Living conditions in the dormitories of the VET schools often do not meet minimum requirements, which further adds to the poor image of these schools. The drop-out rate among VET students is high.

Higher Education is provided in 19 public (state-owned) and 12 private universities/academies (HEIs). For state HEIs, the main source of financing is the state budget. The HEIs benefit from other related sources the student fees being the most important. Budget allocation depends on the number of students. State and private HEIs are subject to mandatory accreditation, having 60% full time employed staff as a basic requirement as well as content of study programmes and technical-material basis. In 2015, the MoE approved "The Reference Framework of the University Curriculum". It defines the conceptual and methodological basis of the curricular policies at national level, in line with the national strategic priorities and with Moldova's commitments towards an integration into the common European Higher Education Area (EHEA) and further implementation of the Bologna Process. Competency-based HE qualifications for 20 fields of study have been aligned to the NQF. Since 2015, Higher Education Institutions signed mobility agreements with 27 Universities from twelve EU Member States in the framework of Erasmus+.

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<sup>67</sup> More recent data from the 2015 assessment is not yet available



## SECTOR ANALYSIS

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### Employment

Demographic change makes labour market reform an urgent matter. The population is ageing and rapidly decreasing. An increase of the pension age should be considered, coupled with enhanced formal employment opportunities in the country. Furthermore, outdated provisions of the Labour Code negatively impact on the labour market and increase the informal sector. The labour law needs reform with regard to non-standard forms of employment in particular, in order to allow for more flexibility and mobility.

To the extent possible, it would be beneficial for migration flows to be diversified geographically, so as to spread the risk across more regions and economies. An effective tool for this could be the negotiation of more labour force migration agreements, as well as social protection agreements with a larger number of countries (MLSPF, Assessment Report: Strategic Development Plan 2012). Migration continues to be a major problem because of the loss of skilled labour. However, it can also be noted that returning migrants tend to be better skilled and better resourced, with a possible opportunity for Moldova to use these returnees as a feature in economic growth and development plans.

At government level, quality of services offered by PES and the National Bureau of Statistics (NBS) requires improvement and adjustment to international approaches. Specific knowledge and capacity for safety and health within various state institutions is needed. Fair wage and informal employment issues need to be better addressed by the government, and the inclusion of persons with disabilities within the labour market is still a largely untapped opportunity.

In relation to employment, there is an urgent need to better optimise the school network due to decreasing student figures and the fact that education is perceived by many employers as 'irrelevant' to the needs of the market. Cooperation between public and private sector in the field of VET is weak, and the private sector is

reluctant to cooperate with the VET system based on negative experiences in the past. The VET system is still more supply-driven, than demand-driven, as the centrally elaborated enrolment plan does not reflect the labour market needs.

On the positive side, ten "Centres of Excellence" (colleges and vocational schools) will be established by 2017 which will be focused on improving partnerships between employers and training institutes. The aim is to meet skills gaps and shortages, giving examples of good practice including robust self-assessment and involving qualified teachers as change agents.

In the education sector challenges to the system revolve around the lack of quality training and support mechanisms for the professional development of teachers. Low salaries and bad working conditions exacerbate the situation, making it difficult to recruit young professionals or retain qualified personnel. The VET system falls even further behind in terms of access for persons with disabilities and special educational needs. Next to adapting the physical infrastructure, capacities have to be strengthened at the school and service provider level, in collaboration with active labour market inclusion policy at the national level.

Employment rate in Moldova is among the lowest in Europe, represented at large by the low labour force participation rate in constant decline from 53% to 41% over the past ten years, that is slightly higher for men (44.1%) than for women (38.6%).

Depopulation, from a negative natural increase and fall in generational flow, challenges the demographic fabric of the country, and urgently needs to be addressed. Asymmetric access to information and urban-centred economic growth<sup>68</sup> affects investment and business development, particularly in the rural areas. New business density is very low estimated at 2%.

SMEs account for 97% of all economic units, including 77% of micro-enterprises. Though it engages 56% of total

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<sup>68</sup> Employment rate in the capital city reaches up to 50% whereas in the Southern part it hardly comes up to 30%

workers in enterprises, their net revenue hardly reaches 30%, displaying evidence of a subsistence-type economy.

The quality of jobs is deficient and vulnerable employment is pervasive with 30% of own-account workers in agriculture and a large share of contributing family workers. The working poor, mainly those without agricultural land, constitute 3.2% of total employment. Almost 70% of people within the 25-54 age bracket are trapped in part-time jobs.

In the third quarter of 2015, the economically active population in Moldova was made up of 1.35 million<sup>69</sup>, with an employed population in 2015 of 1.31 million. Out of this, 55.2% live in rural and 44.8% in urban areas. The male employment rate (46.4%) is higher than that of females (41.3%)<sup>70</sup>. The official unemployment rate has been consistently low in the last few years at around 4%.

The tripartite social dialogue is still not functional despite the proper legislation being in place. The government's capacity to promote – and of the social partners to engage meaningfully with – collective bargaining has to be strengthened. The awareness of social partner institutions to jointly establish a better economic and social environment is still weak. A sound mechanism for peaceful resolution of labour disputes is also missing.

Moldova has a comprehensive regulatory framework on safety and health. However, the Law on Occupational Safety and Health from 2008 is not fully implemented; the Labour Code, as well as other normative acts, are not always consistent with the Law on occupational safety and health. The MLSPF is responsible for the adaptation of the legislation and the implementation of EU regulations in regards to labour force and the ILO standard. However, the alignment process is going slow.

In the labour market service, attention is given to information of unemployed persons through the established information centres, functioning call centres and organised job fairs. However, active labour market

measures, as provided in the Law on Employment, are sometimes ineffective and insufficient in increasing employment of job seekers. Certain measures are not implemented because of the lack of resources and/or because they are not marketable. The executable labour market analysis should be more oriented towards matching labour supply and labour demand, aiming to ensure more active participation of all actors on the labour market.

In the field of employment policy, cooperation and interaction with the private sector are limited. Coordination between the Public Employment Service (PES) and the business sector has to be strengthened at all levels especially when it comes to active labour market policy development and implementation. Development of special measures in the field of training and the provision of protected work tailored to the problems and preconditions of the different target groups are necessary. This is a rather new task for the PES. New activation policies to encourage greater labour market participation of all groups in society, with a special focus on the most disadvantaged groups who face the greatest barriers and disincentives to finding work, are vital. The disadvantaged sub-groups need their own measures, so it is not possible simply duplicate existing programmes. Part of the problem is also that the PES does not have experienced national partners who would be able to implement training and employment measures. In Moldova a service provider market barely exists and is developing slowly.

PES also carries out short vocational training courses to ensure basic qualification and requalification of jobseekers, in principle targeted to the needs of the economy, but usually not carried out in cooperation with employers. The knowledge of the graduates of such courses offered is not adjusted to the needs of real business in need of employees.

## Education

In 2015, MoE reported 2,899 educational institutions, 92 of them VET institutions (secondary, post-secondary and post-secondary non-tertiary) and 31 HEIs. The total number of enrolled children and young people in educational institutions is 610,437, of which 81,670 are in HEIs, and only

<sup>69</sup> National Bureau of Statistics

<sup>70</sup> <http://www.statistica.md/newsview.php?l=ro&idc=168&id=4984977yfdxzDF>

approximately 30,000 in VET<sup>71</sup>. Until now, the VET system has a clear focus on school-based vocational training. Depending on the occupations and entering student groups, there are one to three-year training programmes in vocational schools and two to five year programmes in vocational colleges. Vocational schools can be attended without having successfully completed the gymnasium. They focus on specific trades, while vocational colleges cover more general education. There is a significant mismatch between knowledge and skills of the students and needs of employers. HE has two different types of education – initial education and continuing training. Initial HE is structured into three higher education stages: firstly, a Bachelors degree (Licența) secondly a Master's degree and thirdly a Doctoral degree.

In general, Moldova practices different work-based learning (WBL) approaches in its vocational system:

- On-the-job training (e.g. internships)
- WBL integrated in school-based programmes
- Dual cooperation.

Internships often do not follow a structured approach and students sometimes are only used as “cheap work force”. The same risk exists for envisaged dual VET education. WBL in school programmes suffers from lack of training equipment and trained and experienced teachers. Though the new Education Code has enabled Moldova's VET system to start with dual training, implementation of such training programme is at an early stage. Only a few private companies have been identified for cooperation and few new pilot training programmes have been implemented so far.

The Moldova Inclusive Education Programme 2011-2020 and its Action Plan for 2015-2017 established ambitious targets to enhance access and quality of education for students with special education needs, in line with international standards and the AA. The Republican Centre for Psycho-Pedagogical Assistance at national level, and psycho-social support Services at the district level, were founded to assist the schools in provision of special services

for this category of students. The development of the regulatory framework in operationalising the programme is progressing. However, it heavily relies on external assistance and is under-funded at national level. Currently, only five VET schools train children with special needs.

A National Agency for Quality Assurance in Professional Education (ANACIP), established in 2015 by Government Decision, plans to start implementing external evaluations of VET schools and HEIs from 2016 onwards. Accreditation standards for vocational training are being developed. Internal quality management of VET institutions will take place based on a guide for quality management approved by the MoE, while in HEIs quality is assured by an established body. Functionality and independence of the new ANACIP needs to be ensured.

Lifelong learning (LLL) is gaining more relevance due to several reasons such as:

- The proportion of adults aged 25 and over is increasing
- Emigrants who return home need their non-formal and informal learning to be validated in order to increase their employability and mobility on the labour market
- Because of Moldova's unstable economy employees need to be more flexible than in the past.

Nomenclatures of Occupations for technical professional and higher education were revised and approved. An overall concept of the National Qualifications Framework (NQF) was designed aiming at integrating VET and Higher Education qualifications and compatible with the European Qualifications Framework. A concept paper for the national validation system for formal and informal learning has been drafted. The elaboration of the NQF for Higher Education is in advanced stage. According to the document defining the possible training courses, VET schools and colleges have also been allowed to offer continuing education related services since 2015. However, there are still considerable overlaps and gaps, contributing to sub-optimal allocation of publicly funded study places. In the field of VET, main subjects are assessment rules, horizontal and vertical mobility, identification of training needs on different NQF levels, levelling of qualifications according to the NQF and the development of NQF-related qualifications.

71 [http://www.edu.gov.md/sites/default/files/raport\\_me\\_2015\\_1.pdf](http://www.edu.gov.md/sites/default/files/raport_me_2015_1.pdf)

## 7.2 Cross-Cutting Issues

### Gender equality and women's empowerment

The employment rate of women in Moldova is lower than that of men. Women are over-represented only in jobs that do not require sound professional qualifications and/or in low paying jobs like education and care. Labour force participation among young women, aged 25-34, is much lower than among men in the same age group. Special measures and policies on work and family life reconciliation are crucial to mitigate the social and cultural imbalance that prevails and improve the female activity rate, as well as the existing pay gap.

In the reform efforts, awareness should be created on gender issues early on in professional orientation and the whole education process. Equal opportunity and gender should be mainstreamed more prominently into the economy.

### Anti-corruption

Corruption is widespread in education. As long as remuneration of didactic staff is still extremely low, combating corruption in education will remain a challenge. By targeted measures corruption can be addressed through increasing accountability and raising awareness of teachers and school head teachers. Education of the young

generation in developing and expressing an attitude against corruption is another necessity.

### Transnistria

In Transnistria, vocational education follows a different model. There are three levels: basic vocational education (two professional lyceums), post-secondary education (15 colleges) and HEIs: licentiate and master degrees (9 universities). In existing institutions, branches of Russian and Ukrainian universities/academies have been opened. The curricula and handbooks are developed based on the Russian Educational system. The graduates from Transnistrian schools are eligible to apply for university studies in Russia after passing a unified State Exam (equivalent to baccalaureate). Due to the differences in school systems between the two banks of Nistru River, for Moldova's HEIs, the students have to study one more additional year to get their bachelor's degree. The diplomas issued by Transnistrian schools and universities are easily recognised by the Russian Federation, while recognition in the whole of the Republic of Moldova remains an issue. Following a lengthy process of negotiation between authorities from both banks of the Nistru River, Transnistrian students are envisaged to become eligible for the EU Mobility Programme Erasmus+.

## 7.3 Key-challenges to be addressed within 2017–2020 period and beyond

### Labour market policy

- Transpose around 30 EU Directives related to labour relations, and safety and health, into national legislation
- Revise and align the national labour legislation with EU directives and ILO standards
- Improve the data base of the NBS and the NEA to develop convincing labour market forecasts
- Modernise PES for better working practices and needs-centred services and programmes
- Develop and implement tailor-made employment and training measures for target groups which are mostly in danger of social exclusion (and thus make a more inclusive labour market)
- Use best practice examples as models for the development of inclusive and modern employment measures (e.g. socio-economic enterprises; vocational rehabilitation), and diversification of active labour market services
- Provide special training and recognition to returning migrants to formalise the practical skills they have gained during their work abroad on the basis of specific developed skills tests
- Create a favourable employment environment for returnees
- Improve the networking between all relevant institutions and generate modern incentives to prevent informal employment
- Invigorate the tripartite social dialogue.

### Vocational and Higher Education

- Continue to develop and support Centres of Excellence and performing VET schools in the regions
- Improve the efficiency of funds allocated for education, through more autonomy of schools and support to transparent income-generating activities
- Rationalise the Public Higher Education network
- Ensure smooth cooperation and coordination between HEIs and research institutions
- Promote the systematic cooperation between the education system and private sector to match labour market needs
- Develop and implement structures for pre-service training of VET teachers
- Ensure quality continuous training to teaching staff
- Strengthen the Educational Management Informational System (EMIS) on all levels.

### In the long-term

- Develop further and extend the dual model to show how dual VET works in practice with full cooperation of the economy
- Extend and professionalise the sector committees as the basis for a successful VET
- Develop modern occupational standards and qualifications
- Elaborate, pilot and apply updated modular curricula and learning materials for the specialties
- Encourage HEIs to develop more innovative, relevant, student-based curricula based on learning outcomes
- Promote involvement of HEIs in the development of integrated local and regional development plans, and target regional support towards higher education-business cooperation for creation of regional hubs of excellence and specialisation
- Strengthen the knowledge triangle between education, research and business
- Revise and strengthen the assessment system
- Elaborate and implement a human resource development strategy for teachers, school and university management and other staff
- Implement a more effective national career guidance system.

# Culture and Media

## 8.1 Introduction and Context

The Republic of Moldova is part of the UNESCO convention on the Protection and Promotion of the Diversity of Cultural Expressions. It was the second country in the Eastern Partnership to join the Creative Europe Programme. Culture, however, does not fare well in the list of government priorities and is one of the Ministries least endowed with resources (0,8% of the provisional budget for 2015, including significant grants from Romania). Most institutions are chronically underfinanced. Although there are many challenges, the Ministry of Culture rightly identifies in its strategy “Cultura 2020” three sectorial priorities that correspond to current gaps: the formation of a functional system for the conservation and valorisation of the cultural heritage; the promotion of creativity and development of cultural industries; and strengthening the efficiency of cultural management.

The media sector also faces several serious challenges – one of the examples being lack of proper supervision and monopolisation of potential revenue sources., which makes it difficult for independent media outlets to be financially sustainable. The current media framework provides a difficult environment for portraying an unbiased image of the European Union.

Article 131 of the AA foresees that the Parties shall develop a regular dialogue and cooperate to promote the audio-visual industry in Europe and encourage co-production in the fields of cinema and television. This cooperation could include, inter alia, the training of journalists and other media professionals, as well as support to the media, in order to reinforce their independence, professionalism and links with EU media in compliance with European standards, including standards of the Council of Europe and the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

The policy framework for these sectors is still insufficiently developed and at times dismissed as being dysfunctional. The Strategy for the development of Culture “Cultura 2020”, adopted by the government of Moldova on 29 January 2014, recognises the need “to ensure a coherent and efficient political framework for the development of a viable cultural environment”. The strategy itself, however, provides few specifics.

One of the most important laws in the sector is the one on the Audio-visual Code of the Republic of Moldova, adopted in July 2006. Parliament has also passed a law on cinematography, establishing a National Center for Cinema (CNC) in July 2014 and a director has been nominated in 2016. Of particular relevance to the culture and media sector is the law on copyrights and connected rights adopted in July 2010.

The most critical issue is the revision of the law on the Audio-visual Code, which is outdated and does not take

into account the development of online media and needs to incorporate the requirements of the “Audio-visual Media Services” directive as required by the AA. A new draft was submitted to Parliament in 2011 but only partial revisions were made. An amendment on ownership transparency was adopted in February 2016, but this appears to have little immediate consequence as current owners only have to comply when their licences expire in 2021. Since 2012, the Parliament postponed *sine die* the discussion of the draft Broadcasting Code. In January 2014, a group of Members of Parliament made a number of changes to the draft Broadcasting Code, without consulting civil society and media representatives, and was registered as draft legislative act.

The sector has a crucial role to play in strengthening respect for fundamental freedoms, human rights, and democratic principles, which lie at the heart of the AA. The AA requires transcription of the “Audio-visual Media Services” directive. Cooperation envisaged in chapter 25 on various issues such as the “audio-visual industry”, “coproduction in the field of cinema and television” and freedom of press also imply that the framework should be elaborated in these domains.

Enhanced cooperation in this respect is envisaged in light of improving policy dialogue and advocacy with the key partners in this field. Improvement and consolidation of the mass-media in Moldova will enable the European Union to develop a stronger partnership with the actors in this field, thus leading to improved communication and visibility of EU assistance provided to the country.

The AA stresses the need to work towards adopting audio-visual legislation in compliance with European standards, strengthening the capacity and independence of regulators and amending legislation to ensure that public financial assistance is allocated based on objective criteria equally applied to all media. The underlying set of rules, regulations and incentives that would enable creative industries and an appropriate media environment to thrive is currently lacking and/or improperly implemented (e.g. no law on sponsorship, delay in creation of the CNC). Although some segments of legislations are compliant

with EU standards, a significant portion has not been implemented (protection of cultural heritage, management of copyrights and supervision of the media).

The policy environment of the media sector remains challenging on many issues: transparency of ownership, fair competition, advertising revenues, and supervision. Freedom House describes Moldova’s media environment as only “partially free”. There is a monopoly of an estimated 90% of advertising revenues and 80% of audience vested in a single company.

## SECTOR ANALYSIS

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The cultural sector continues to be affected by a squeeze on financial resources, but at least, there is an understanding by the competent authorities of what is to be done. A recovery can be expected in the medium term future if reforms related to management of cultural institutions, and the creation of financial incentives, are implemented. In the field of cultural heritage, the pace of destruction of protected buildings is slowing down due to increased awareness by the population, economic actors and local and national stakeholders, as well as by the actions of the AIRM (Agency for Inspection and Restoration of Monuments).

The situation in the media sector is still deteriorating with ongoing concentration of media outlets. The dominant player in this area already controls four national television channels and three radio stations, and is said to have purchased two additional television stations in February 2016. The new amendment limiting the number of licenses to two does not apply to already existing ones. Sustainability and pluralism thus continue to be major issues in the medium term.

In addition to the problems created by gaps in the legal framework, media do not always seem able to fulfil their role as reliable and independent sources of information. There is a need for continued support in this direction to help media assume their democratic responsibilities and meet emerging challenges.



The problem could be addressed by assisting the law-makers, policy-makers, members and staff of regulatory bodies, civil society actors and media professionals in: (1) drafting amendments to existing media related legislation in line with European standards and (2) putting into practice the regulatory framework.

## Culture

The Republic of Moldova inherited from the Soviet times a rich network of cultural or culture-related institutions: 36 theatres and concert institutions, 1383 libraries, 119 museums and 1231 so-called “Casa de cultura”. Most of these are critically underfinanced and the dynamism of the management of these institutions remains a serious issue. Only a few have managed to remain creative and/or been able to attract local or foreign partners.

In the field of cultural heritage, the decades following independence have seen an alarming loss, either due to neglect or to speculation. The registry of monuments currently includes 2913 buildings. The Ministry of Culture considers that more than 10% of protected patrimony in Chisinau has been destroyed or irretrievably damaged.

Creative industries, particularly audio-visual creation, literally collapsed after independence, with the effective end of production at the Moldova-Film studio. The RM has taken the decision to create a National Centre for Cinematography but has not identified credible sources of financing, nor incentives to make the system work with a value added.

The management of copyrights by Collective Management Organisations (CMOs) is currently dysfunctional (no revenues going to artists for the distribution of their works due to the overlaps between CMOs).

## Media

The supervisory practice of CCA remains at odds with EU best practices and at times selective and politically motivated. This does not provide sufficient breathing space for independent media outlets.

The obligations for channels to participate in the production of local audio-visual works are very limited. Most of the

TV channels are re-broadcasting foreign programmes, especially from Russia. That’s particularly true for the Prime TV Channel – the most watched in the Republic of Moldova – which re-broadcasts programs from ORT. In addition, the National Broadcasting Company (Teleradio-Moldova) needs to be restructured and modernised.

The Law on ensuring equal opportunities between women and men, adopted by the Parliament on 9 February 2006, contains a special article covering media but this is not well implemented, with gender stereotyping remaining a challenge to address.

Consumer literacy is low with little evidence of critical engagement with information transmitted by media outlets. Journalists are criticised as being self-censoring: investigative journalism is not broadly developed and the ones undertaking such activities, tend to be focused in Chisinau and are not available nationwide. The media could improve on its watch-dog abilities.

## 8.2 Strengths/opportunities/critical bottlenecks

For the moment, the sector has few strengths and many bottlenecks. The lack of a policy framework to mobilise financial resources, through appropriate regulations, protective measures and incentives, is the single most important bottleneck for the development of the cultural and media sectors. The economics for the development of flourishing culture and media sectors, especially for creative and/or audio-visual industries, are not in place for the moment. Without protection of intellectual property rights or even a credible sense that investments can be recovered, it is difficult to imagine success. The cultural strategy of the Ministry of Culture is not backed by adequate resources and it is unreasonable to imagine a significant increase of budget money for those purposes in the predictable future. Poor implementation of laws by authorities systematically undermines the sector.

There is a lack of capacity, particularly in the management

of cultural institutions. Post-communist style managers at the top of public cultural institutions lack dynamism and are reluctant to participate in international projects. A scarcity of recruitment based on competence and performance-based management practices corrodes the effectiveness of institutions and although eligible, Moldova's cultural institutions have not presented a single project for the Creative Europe Programme. Equally, there appears to be no political appetite for tackling vested interests, particularly in the media sector. In addition to this, there is limited independence of the regulatory authorities, especially the CCA, in implementation and supervision. There is also growing concern that investigative journalists will see their space reduced.

Another important aspect is the current level of institutional and human resources capacities in the field of both public and private broadcasters, which is limited by either poor academic or professional experience in the field, or lack of sufficient technical resources for performing according to higher standards.

An important strength in the media sector is for it to generate its own revenues. However, revenues are unequally distributed and are not sufficient enough to support a flourishing media. Poor oversight is partly due to capacity gaps as well as sometimes vested interests and controlled state institutions. Here there is an important opportunity to build management capacities and support the work of investigative journalists.

The vision of what constitutes national culture is also not always sufficiently inclusive, missing important opportunities related to the roles played by women and to cultural diversity (for example, including Gagauz, Russian, Ukrainian, Bulgarian, and Jewish culture). Similarly, decision makers appear to have little appreciation for the potential economic opportunities embedded in cultural and creative industries. Part of the problem is that culture is exclusively the responsibility of the Ministry of Culture when in fact cooperation with other Ministries (economy, but also education) could be of mutual benefit.

## 8.3 Cross-Cutting issues

Because of their reach, media and culture are vital to cross-cutting issues such as gender and minorities.

Improving freedom, independence, pluralism and diversity of media is closely interlinked with the information society and internet governance, as well as enhancing the right to data protection.

### Gender equality and women's empowerment/ Cultural Diversity

The culture and media sector is one of the most important tools a society has to combat stereotypes. Hence it is of paramount importance that gender equality and participation of minorities are given its space within these sectors.

The cultural identity promoted by the government of the Republic of Moldova is still sometimes dominated by men of Romanian ethnicity, which does not give full justice to the diversity of the country. The contribution of minorities, starting with the Jewish minority, to the culture of the country, is rarely promoted. Reporting on gender/equality issues such as women in business and gender based violence and reporting in a gender sensitive way is in dire need of improvement.

### Environment and Climate Change

There is a synergy between the preservation of heritage and the environment (protection of landscapes, limiting the negative impact of human activity). These should not be seen as separate issues envisaged separately.

### Anti-Corruption

Corruption remains an issue, especially in the field of protection of archaeological artefacts and procurements. Supervision of the media sector is affected by vested interests.

### Transnistria

The legal framework for the activity of journalists in Transnistria is more limited than the one on the right bank. A truly independent and objective mass-media is lacking.

## 8.4 Key Challenges to be addressed within 2017–2020 period and beyond

The most important issues are finances and lack of capacity. The Republic of Moldova should prioritise the putting in place of the correct incentives and help identify resources for the development of creative industries. Management of cultural institutions should be improved. There is a high likelihood that Moldova will not be able to fully benefit from its application in Creative Europe.

The media sector, which is central to reaching political objectives of the AA (fundamental rights, rule of law) poses a specific challenge. Supervision should be strengthened. The issue is related not only to the capacity, but also to the political will.

Low inclusiveness and representation of minorities and the need to improve gender sensitivity in media reporting are shortcomings. There are also growing concerns on the enabling environment for independent, investigative journalism. Continued support will be needed for the training of journalists and other media professionals, as well as support to the media, so as to reinforce their independence, professionalism and links with EU media in compliance with European standards. Proper donor and beneficiary coordination on media support for a more coordinated and strategic support would be needed.

Enhancing the media landscape by assisting independent media, ensuring level playing fields on the media market and supporting the de-politicisation of public media would be among key objectives.

Future actions could explore possibilities to support the development of independent media outlets through start-up initiatives, backing of running costs directly for an interim period or commissioning production of specific materials or subjects. Possibilities of adopting alternative business models, taking into account the specific Moldova's context, should be explored. This needs to be combined with capacity building initiatives aiming at developing managerial skills and sustainable business models for media companies, especially regarding finances. Actions in support of technical distribution for the benefit of all (satellites, transports, equipment, facilities, systems for subscriptions etc.) could be explored.

# 9.

## Civil Society

### 9.1 Introduction and Context

Defining Civil Society can be a complex issue, as at international level there is no common definition. At EU level, Civil Society Organisations (CSOs) encompass membership-based, cause-based and service-oriented CSOs. Among them, community-based organisations, non-governmental organisations, faith-based organisations, foundations, research institutions, Gender and LGBT organisations, cooperatives, professional and business associations, and not-for-profit media. Trade unions and employers' organisations and so-called social partners, constitute a specific category of CSOs<sup>72</sup>. Their common feature lies in their independence from the State and the voluntary basis upon which they have come together to act and promote common interests. Universities and media will not be analysed in this chapter, as these are part of Chapter 7 – “Education and employment” and Chapter 8 – “Culture and Media”.

In February 2016, 10,296 CSOs were registered with the Ministry of Justice of Moldova. Only a small share has been active in the last three years. Their activities relate mainly to informal education/training (50%), social services (40.8%), community development (36.9%), followed by civic participation and advocacy (26.2%), health and youth (19.2% each), and culture (16.9%)<sup>73</sup>.

The following legislation guarantees an enabling environment for CSOs in the Republic of Moldova:

- The Constitution of the Republic of Moldova
- The Civil Society Development Strategy (NCSDS) 2012-2015
- Law 837 of 17.05.1996 on Public Associations
- Law 581 of 30.07.1999 on Foundations
- Law 982 of 11.05.2000 on Access to information
- Law 1420 of 31.10.2002 on Philanthropy and sponsorship

- Law 245 of 21.07.2006 on The Organisation and Functioning of the National Commission for Consultation and Collective Bargaining
- Law 239 of 13.11.2008 on Transparency in Decision-making
- Law 158 of 18.07.2014 (the so-called “2% Law”)
- Law 279 of 11.02.1999 on Youth
- Law 121 of 18.07.2010 on Volunteering
- Law 393 of 13.05.1999 on Chamber of Commerce and Industry
- Law 1129 of 07.07.2000 on Trade Unions
- Government Decision 11 from 19.01.2010 on National Participation Council
- Parliament Decision 373 from 29.12.2005 on Cooperation mechanism between Parliament and Civil Society

Nevertheless, gaps in the policy frameworks persist. The current *Civil Society Development Strategy* expired in December 2015, but the NGO Forum Resolution in November 2015 suggested an extension of the strategy until the end of 2016. Around 2/3 of the activities under the expired strategy were not implemented and it is not clear if the Government is willing to further implement them or not.

<sup>72</sup> 2012 Civil Society Communication: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0492:FIN:EN:P>

<sup>73</sup> Mapping study “Civil Society Organizations from the Republic of Moldova: Development, Sustainability and Participation in Policy Dialogue”, IDIS Viitorul 2014

The AA between Moldova and the EU recognises the key role of civil society in: (1) EU-Moldova relations in general, informing citizens of the Agreement and monitoring its implementation, (2) its active participation in the decision-making processes through a transparent and open dialogue with different stakeholders, (3) supporting the country's institution building, (4) strengthening the role of tripartite dialogue.

The AA sets the ground for enhanced cooperation, exchange of practices and information between CSOs from EU Member States and those in the Republic of Moldova. CSOs are recognised as actors of change in Moldova's society. Cooperation between CSOs should strengthen mutual understanding and generate better awareness of opportunities and challenges in EU-Moldova future relations.

A concrete output of this is the establishment of the EU-Moldova Civil Society Platform which should express recommendations to the Association Council (Article 442). The platform started its activities in May 2016 and is meant to give European and Moldova's citizens the opportunity to have a voice and continuously monitor EU-Moldova relations. In addition, the Trade and Sustainable Development Chapter of the AA sets up a domestic advisory group to counsel the Government of Moldova on sustainable development issues stemming from the implementation of the DCFTA. This group is composed of different CSO stakeholders (Article 376). On an annual basis, a Joint civil society dialogue forum will also be held to present an update of the same Chapter (Article 377).

In some sectors, the stronger CSOs tend to be concentrated in the centre with insufficient coverage and buy in from rural communities. Certain smaller grassroots organisations can be extremely effective in their specific field. However, most of the grassroots organisations tend to be weak or underdeveloped in some sectors.

Membership to main civil society platforms in Moldova overlaps. Representatives are mainly from Chisinau and there is criticism concerning the lack of consultative

and delegation systems to/from smaller grassroots organisations and citizens. This weakness hampers the overall representativeness of the civil society sector. The active participation in supervising implementation of governmental policies and monitoring governmental bodies at local level remains weak. The capacity gap between CSOs from the centre and those in decentralised areas, brain drain in rural areas and public apathy toward political engagement contribute to poor levels of civic participation in local policy reform monitoring.

Persons from Moldova's most vulnerable groups, i.e. persons with disabilities, Roma and other ethnic or religious minorities, victims of domestic violence, etc. are only occasionally involved in the activities of the "mainstream NGOs", while the specific organisations of such people remain few and underdeveloped. However, over the last few years, progress has been made in supporting nationwide network of advocacy and self-advocacy groups of persons with disabilities.

Furthermore, the level of engagement between the Government and CSOs varies depending on a number of factors, such as political will, CSO capacity and the existence of a sustainable partnership amongst CSOs.

Most CSOs lack accountability to wider society. The sector as a whole struggles with financing and is not perceived to be financially sustainable/viable.

As regards the Transnistria region, the unequal opportunities available to the right and left bank CSOs create distrust and lead to poor cooperation.

A developing trend in the sector is the increasing participation of informal civic grouping advocating through innovative ways, like petitions, flash-mobs, open letters, social media, etc. There are a number of reasons for this increase in participation. One of such reasons is the perception that certain rights are not advocated enough by existing CSOs. Some of these civic actions are sporadic and are not intended to become an official organisation.

## SECTOR ANALYSIS

### Legal and Operational Constraints

CSOs often deplore bureaucratic obstacles to registration of associations and amendments to Statute, change of association's director at the Ministry of Justice, related to extensive interpretation by the Ministry of the legislation related to these procedures. In particular, the Office of the UN High Commissioner for Human Rights in Moldova reports that many CSOs complain about significant delays in processing relevant applications, requests for extra documents unforeseen by the law, arbitrary intrusion of the Ministry officers into Statutory provisions concerning internal organisation of associations. These difficulties significantly affected the relevant CSOs, suspending their activities sometimes for months.

Aside from this, the gap between central and local CSOs is due to the fact that according to the Law on Public Associations, CSOs are divided into two types: national, which are registered by the Ministry of Justice, and local, which are registered by local authorities. Their area of activity is also limited by law. Local CSOs can only work at local level. Therefore, international donors prefer to fund central CSOs. This shortcoming will be addressed by a working group set up by the Ministry of Justice in March 2016 in order to amend the Law on Public Associations.

### Financial Sustainability

A large percentage (80 - 90%) of civil society activities are funded by foreign donors. Funding is mostly project based and sometimes entails managing large budgets. In some cases, donors tend to fund CSOs based on their own priorities which are not always in line with local/national ones. External funding does not necessarily allow or support CSOs in building their own capacities.

In July 2014, the so called "2% Law" was adopted. This law allows physical persons the right to designate 2% of their income tax to non-commercial public associations, religious cults and their component parts (religious entities), but this is not applicable to social partners. The current version of the "2% Law" does not yet allow its effective implementation. The conditions for benefitting from this mechanism are complicated and unclear. The law

provides more restrictive conditions to "classical" CSOs than to religious entities when accessing the mechanism, use of funds and sanctions for improper use.<sup>74</sup> In February 2016 a draft law to amend the current "2% Law" was registered in the Parliament. This draft law was a result of consultations with CSOs and provides equal conditions for all the beneficiaries of the law. In addition, the Government has to adopt a new Regulation for the implementation of the "2% Law".

CSOs also have the option to earn income from service and goods provision as long as this is stipulated in their statute. Although, this is not its role, the Ministry of Labour, Family, and Social Protection contracts CSOs for service provision, especially the vulnerable, based on provisions of the Law on Public Procurement. However, this is a unique example and not always the case.

Funding in the sector is not only limited to service contracting. Some Ministries, such as the Ministry of Economy, Ministry of Environment, Ministry of Youth or Ministry of Culture, provide small grants to CSOs, which have been positively received.

Especially for small CSOs, local authorities represent a source of funding and support. Local authorities – such as village councils and municipalities – can potentially offer privileged spaces for engaging CSOs in local governance and policy making; and this role would be relevant both as a way to launch initiatives aimed at reducing social exclusion factors at local level as well as a way to foster decentralisation, in line with current reform processes.

Self-sustainability in the sector is often an issue. Social entrepreneurship could provide CSOs with an alternative to donor-funding. Unfortunately, in the Republic of Moldova, social entrepreneurship is still under-developed. Currently, the Law on Public Associations allows NGOs to develop for-profit activities with the purpose of using the profit for the association's goals. However, there is still no clear definition/conceptualisation of the social entrepreneurship and there is no clear mechanism in place for its implementation. A

<sup>74</sup> <http://crjm.org/wp-content/uploads/2015/06/CRJM-DPP-2la-suta-eng.pdf>

specific draft Law on social entrepreneurship was developed and submitted to different ministries and governmental institutions for consultation. The Government is expected to submit the draft Law for approval to the Parliament in several months. It is clear that without the Government's commitment and financial support, this Law might not be as effective as intended.

### Poor Representation

Only 24 % of Moldova's citizens claim they trust CSOs, whilst 7% trust the Government.<sup>75</sup>

At the same time, 74 % trust the Orthodox Church, which also forms part of the civil society sector. This negative image of "classical" CSOs is partly caused by the fact that a donor-driven elite of a restricted circle of CSOs from the Centre, disconnected from the wider society, dominates the relations with donors and the Government. The Church on the other hand, is a major opinion-maker in Moldova and has real moral authority and mobilisation capacity which leads to the fact that donations to the Church are six times higher than to other types of CSOs. Development of smaller, local CSOs that have a real constituency in society is low.

Often, there is a perception that CSOs are not able to participate in the formulation of policies and policy dialogue. They are considered to be recipients of information and resources. In most cases, CSOs are used as vehicles for disseminating information, facilitating the distribution of benefits and facilitating beneficiary access to Ministries.

The lack of representativeness and constituency of the civil society sector is also determined by a low level of CSO transparency when explaining the value of their work to citizens - not just donors and Government - and also on founding members and spending of funds.

Depending on the sector, the language division between Romanian and Russian speakers is sometimes reflected in the civil society sector, which impedes effective cooperation between both sides.

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<sup>75</sup> Institute for Public Policies, November 2015, Barometer of Public Opinion

### Conceptual and Structural Constraints to Social Dialogue

Citizens' trust in CSOs is low and their trust in social partners and trade unions is even lower (15%)<sup>76</sup>. Social dialogue was institutionalised in the early 2000s, by Law 245 of 2006 on the Organisation and Functioning of the National Commission for Consultation and Collective Bargaining by establishing a legal framework for national, regional and industry commissions. The institutionalisation of social partnership is based on the ILO Convention. The representativeness of social partners is higher than that of other civil society stakeholders. They are membership and fee based organisations. Some rayons or small communities which are not able to pay membership fees are not represented. The experience of joint work or of consultations with other CSOs is low, even if cooperation between women/youth organisations and Trade Unions has begun. Hence, social partners do not often touch upon human rights issues within their focus areas.

Social dialogue is currently ineffective. The problem derives from internal and external factors. Among the external factors that negatively influence social dialogue is the global financial crisis, which brought about the budgetary austerity and a decrease in consultations when it comes to adoption of policies that impact businesses. Domestic factors include unstable political climate and legal framework deficiencies. Social dialogue is often perceived as lacking a variety of policy dialogue topics, due to limited social and economic policies of labour organisations. As a result, 70% of Moldova's businessmen and women consider the Government not to be sufficiently cooperative with its dialogue partners and two out of three companies state that social dialogue carried out through tripartite commissions is inefficient at national and local level.

### Civic Participation and Volunteering

Civic participation, as well as volunteering is generally underdeveloped in Moldova, inheriting from the soviet system where public debate, civic activism and criticism were suppressed. Since April 2009, after parliamentary election protests were heavily and violently suppressed,

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<sup>76</sup> Idem



few significant civic engagement events were organised and volunteering, formal memberships, signing in petitions, participation in demonstrations and donations to the third sector, although increasing, remained at a low level. In the context of a worsening economic situation, deep-rooted political crisis and corruption scandals, 2015 was marked by several large-scale manifestations. In addition, several recent cases have shown that collaboration within the sector can be a catalyst for effective advocacy and increased civic participation in achieving positive change (for example media access to Parliamentary sessions, adoption of the law on female participation in politics, CSO petition on internet control law, etc.)

Volunteering is quickly developing in Moldova. The third objective of the NCSDS 2012-2015 concerns enhancing civic spirit and volunteering and its implementation rate is the highest amongst the strategy's objectives.

The Ministry of Youth and Sports created the Host Institutions Certification Commission in 2014, to certify organisations which will host volunteers. However, there has been criticism that the newly established institution is not able by its legal framework or human and financial resources to fulfil its mandate in assessing minimum quality standards of host institutions of volunteers.

### Transparency in decision-making

Even if legislation on transparency in decision-making was adopted back in 2008, there are still serious drawbacks in its implementation. In 2014, 10 out of 16 Ministries published reports on decisional transparency. The Ministries consulted 9% of the draft legislation in 2013 and 14% in 2014.<sup>77</sup> Local authorities consulted 24% of the documents adopted in 2013 and 33% in 2014.<sup>78</sup> Sometimes, the Parliament conceptually amends certain draft laws (especially strategic and important laws), without public consultations, thereby making the public consultations organised by the Government less effective. There is no procedure in the national legislation impeding this situation. These aspects are a serious barrier for efficient civil society participation in the decision-making processes.

<sup>77</sup> The study-survey on the implementation of Law 239/2008 on Transparency in the Decision-Making Process (Romanian), 2016, page 2, <http://www.romaniacurata.ro/wp-content/uploads/2016/04/Raport-aplicare-L239-din-2008-mp-3.pdf>.

<sup>78</sup> Idem, page 4.

### Capacity Challenges

The main challenges in the sector are related to lack of strategic vision, framework and action plans regarding capacity building at the national, regional and local level.

An overall weakness is the institutional capacity of the organisations. There is a lack of capacity in basic project management skills such as financial management, planning strategies and priorities, writing reports or strategies, fundraising and issues of internal governance and the sector experiences a high staff turnover. Language also seems to be a barrier in accessing and disseminating information and applying for external funds. In some sectors, CSOs can provide only very limited technical expertise which leads to an inefficient consultation process.

In view of the CSO watchdog function and its new roles and responsibilities in the framework of the implementation of the AA, low representativeness of the civil society sector, its limited capacity in advocacy, lobbying and engaging in high level policy dialogue and its limited organisational skills present a clear issue. Lobby and advocacy roles are ad-hoc and are not well coordinated across various stakeholders.

## 9.2 Cross-Cutting Issues

*Gender Equality and Women's Empowerment:* Civil society is a partner in lobbying and advocating for major achievement in terms of gender equality in the Republic of Moldova, including the adoption in May 2012 of the Law on Ensuring Equality which encompasses a comprehensive anti-discrimination approach. In April 2016, civil society stakeholders pushed the Parliament to adopt a minimum of 40% of women as candidates for national and local election and 14 days' paternal leave. A Gender Equality Platform was set up at the initiative of several donors to consolidate major civil society stakeholders active in gender equality.

*Environment and Climate Change:* A wide range of CSOs, most of them medium and small-scale organisations, are active in the field of environment and climate change - both at national and local level (including the left bank of the Nistru river). The Ministry of Environment relies heavily on the expertise of civil society in policy-making.

*Anti-Corruption:* In an overall corrupted environment, the civil society sector is not left unscathed. This also impedes the development of citizens' trust in the sector. On the other hand, there are civil society stakeholders that are clearly essential in detecting corruption cases. An Anti-corruption Alliance was set up to bring together CSOs to address this issue. However, the Alliance does not include many specialised organisations in the justice and anti-corruption fields and does not have the capacity to systematically monitor, detect and react to corruption cases or relevant legislative initiatives. Even though many donors claim the fight against corruption as one of their funding priorities, there are not many civil society stakeholders active in this domain. Overall CSO capacity in the anti-corruption field is limited due to weak expertise in very narrow and complex issues.

*Transnistria:* The environment for civil society development varies depending on which side of the Nistru river we are referring to. In Transnistria, the legislative framework for CSOs is very different to that established by central authorities. CSO activities are tolerated in some fields (environment, social rights) and even encouraged in others (social affairs, vulnerable people), but they remain – particularly those receiving external funding - tightly controlled both by the *de facto* Committee for Humanitarian Assistance and the *de facto* Security Committee of the so-called authorities of Transnistria. So called "Government Organised Non-Governmental Organisations" (GONGOs) are a reality. The ongoing process of aligning the legal framework of the associative sector to that of the Russian Federation results in an increasingly restrictive environment for civil society development. The recent adoption of "foreign agents" terminology in local *de facto* legislation would make civil society from the region even more vulnerable. In April 2015 the *de facto* Security Committee of the region described CSOs that receive funding from abroad

as a threat to security. Access to media is highly restricted and state controlled. Popular websites are often blocked by the *de facto* authorities. The *de facto* authorities allow themselves to prohibit the organisation of events in public spaces if they see fit and whether or not activities are political in nature or not. There are about 2,500 CSOs registered in the Transnistrian region, where civil society has experienced a distinctive development. The sector experiences difficulties in accessing international funding as registration in Transnistria is not internationally recognised and administrative problems remain when receiving funding from outside of Transnistria. Support to civil society in this region therefore requires special priorities and funding approaches, and mainly involves confidence-building measures between both sides of the Nistru River through joint projects in human rights, service delivery, business opportunities and social infrastructures guided by EU, UN and OSCE rules and procedures. Transnistrian CSOs have the possibility to register at the Ministry of Justice of Moldova. In practice, double taxation, reporting, accounting and social allowance systems, political fear and the unpopularity among donors of newly registered organisations hinder them in going through this administrative and burdensome procedure. Therefore, organisations registered in Transnistria access funding by registering the grant at the Coordinating Council (Coordinating council of NGOs and political parties from Transnistria) or as a currency transaction and movement of capital at the "Transnistrian Republican Bank". Enhanced flexibility from the donor community, such as cash transfers, or funding through partnerships with non-state organisations from the right side of the Nistru River are also common practices used to respond to the funding challenges. Transnistrian CSOs state that cross-river partnerships with CSOs from the right side for common project funding and project implementation are often not established on an equal basis and do not allow them to fully benefit from donor support.

### 9.3 Key challenges to be Addressed within 2017-2020 and beyond

- Promoting financial sustainability for the whole sector
- Improving CSOs internal capacity development and continue to professionalise leadership of CSOs
- Increasing role of civil society in policy dialogue, monitoring implementation of public policies and monitoring of spending of external financial assistance
- Enhancing the role of civil society to be an active and independent development actor in increasing its constituency and representativeness of the wider society through engaging with a wider range of actors
- Identifying and supporting new civil society actors, including informal groupings, through innovative or simplified funding mechanisms.

# Environment and Climate Change

## 10.1 Introduction and Context

Moldova faces considerable challenges in environmental protection, especially in spheres such as integrated water resource management, waste management and climate change. In addition, degradation of natural resources, with biodiversity loss and pollution (air, water and soil), is impacting development and economic growth. This is generally associated with limited institutional capacities, political instability, increasing frequency of weather anomalies and other types of natural hazards, which exert growing pressure on Moldova's environment and the safety of its citizens. These major challenges cover three chapters related to environmental matters in the AA. Environment and Climate Change is incorporated in the AA in title IV, Chapter 16: Environment (Art. 86-91 & Annex XI), Chapter 17: Climate Action (Art. 92-97 & Annex XII) and Chapter 22: Civil Protection (Art 117-121).

Despite commitments under the AA, Moldova's long-term policy and programming (including Moldova 2020) does not reflect environmental protection at a sufficiently high level, although it is mainstreamed as a cross-cutting issue. While the existing policy framework of the sector was updated in recent years it requires further improvement. The environmental and climate change policy framework incorporates national strategies covering the key subsectors:

- Environmental Strategy (ES) for 2014-2023;
- National Waste Management Strategy (NWMS) for 2013-2027;
- Water Supply and Sanitation (WSS) Strategy for 2014-2028;
- Climate Change Adaptation Strategy for 2015-2020;
- Strategy on Biodiversity of the Republic of Moldova for 2015-2020;

The strategies on Low Emissions Development (LED) and Atmospheric Air Protection are developed. There are also

drafts of the Disaster Risk Management Strategy (DRMS, 2015) and of the new Regional Development Strategy (RDS, 2016), which has been endorsed by the Government and passed on to the Parliament for approval.

Considering the level of approximation of Moldova's environmental legislation to the EU *Acquis* in the areas of "environmental governance" and "water management and protection legislation", little work remains to be done to achieve a high level of legislative alignment. In all other sub-sectors, including environment as a horizontal (cross-cutting) issue, major policy gaps exist. In many areas, there is no legislation in place at all (for example, on air quality, Integrated Pollution Prevention and Control IPPC, PRTR, access to environmental information, waste streams, or mining waste). In some fields draft legislation exists, but has many gaps or is not properly aligned with EU law (such as those on chemicals, waste management, civil protection) or existing legislation needs substantial improvement to make

it coherent with legal EU standards (for example, nature protection, industrial hazards and disaster management), or needs urgent promotion. Norms and standards used need updating to the current best practices.

Considerable efforts are needed in pollution prevention and control, and air quality, where the biggest gap in alignment with the *Acquis* is acknowledged. EU legislation on chemicals, which Moldova shall be aligned with, is consolidated in the REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals). Adoption of the draft Chemicals Law is of crucial importance, as it is an important building block for chemicals management, reducing the societal costs and promoting businesses. In addition, the approximation to the EU legislation related to import and export of dangerous chemicals, persistent organic pollutants, placing on the market of biocidal products, and inspection and verification of good laboratory practice has been agreed upon in the DCFTA.

For the purpose of this analysis this chapter is divided into four sub-sections: Waste Management; Water Supply and Sanitation; Climate Change; and Civil Protection.

## Waste Management

The approximation to four waste-streams related directives has been agreed upon in the Deep and Comprehensive Free Trade Area (DCFTA). The Waste Framework Directive (Directive 2008/98/EC) establishes the basic requirement for an environmentally friendly and sound waste management system that minimises waste-related risks to human health and the environment. Selected obligations of three directives from the EU Waste *Acquis* are an explicit part of the environmental chapter of the AA and have to be considered by Moldova on further improvement of the subsector's framework. Steps in this direction have been undertaken. A draft Law on waste is pending adoption in the second hearing by the Parliament. Regulations aiming at alignment with the EU directives on landfills, toxic waste, packaging waste, waste from electrical and electronic equipment and from batteries and accumulators have also been elaborated. Despite this

progress, implementation remains a challenge in the waste management sector. Sound economic mechanisms for the implementation of the extended producer responsibility principle and the polluter pays principle are needed, and waste management programmes are still to be developed by the local authorities, based on waste management regions approved by the National Waste Management Strategy (NWMS). The institutional and expert capacity for this purpose needs substantial strengthening.

## Water Supply and Sanitation

Moldova faces significant problems of water availability and quality due to:

- Scarce water resources susceptible to climate change and extreme weather conditions. Moldova is qualified as 'water stressed' with future prospects of reduction of water supplies by 16 to 20%;
- Inadequate water quality due to lack of rudimentary sanitation, inadequate livestock waste management and excess use of fertilizers. 85% of samples from wells and 39% from centralised piped systems do not meet sanitary standards;
- Dilapidated and technically obsolete physical infrastructure, which leads to frequent interruptions of WS services provision and exacerbated water losses (around 50%);
- Underperformance with regard to people's access to water and services: 60% on average with striking discrepancies in rural areas: 11% with technical connection to sanitation networks but only 2% are functioning well;
- Fragmented institutional set-up and governance for water management which is not adequate to ensure the implementation of the AA;
- Political will is required to ensure that water and sanitation become a priority in the governmental policy agenda, and the funding and investment requirements of the sector are addressed.

A draft Prut River Basin Management Plan for 2017-2022 has been developed with support of EU funded regional project on Environmental Protection of International River Basins. The draft Management Plan will be submitted (in 4Q'16) to the GoM for approval together with Danube

Delta and Black Sea sub-basin management plans, which are currently under development.

There is weak operational capacity of existing water utility companies (ApaCanal), absence of coordinated strategic investment programming and a method of setting water tariffs at municipal level, which needs improvement for sustainability of systems.

In the field of water management and water resources protection, the legal situation is comparably good given the adoption of new Laws and numerous Regulations/by-laws between 2011 and 2013. The gaps are:

- Regarding urban waste water treatment, designation of sensitive areas with respect to the operation of urban wastewater-collection and treatment systems did not take place yet, but the legislative basis including criteria for the determination of such areas is fully in place;
- The monitoring and the water compliance checking system for drinking water quality in alignment with EU standards;
- Provisions on concentration and respective measures for freshwater are not sufficient with regard to water pollution caused by nitrates from agricultural sources;
- Implementation of laws, regulations and by-laws by the different actors.

## Climate Change

Moldova's population, agriculture and environment are strongly affected by increasing frequency of extreme weather events aggravated by climate change. Special measures for Sustainable Land Management, promoting organic agriculture, wetland's restoration, afforestation and protected area's extension are necessary in order to increase the environmental safety and landscape's sustainability. In such a way, the impact of climate change on Moldova's economy shall be minimised or mitigated.

Climate Change policy includes the Strategy on Adaptation to Climate Change until 2020 and the Action Plan for its implementation, the National Development Strategy "Moldova 2020", and a series of other sector strategies, as well as the laws and action plans such as: Energy

Strategy until 2030 and Law on Energy Efficiency (2010); National Energy Efficiency Programme 2011-2020; National Renewable Energy Action Plan 2013-2020; National Strategy of Agriculture and Rural Development 2014-2020; The Forestry Sector Strategy for 2016-2025 was developed and submitted for approval to Parliament. There are draft Adaptation Strategies in the Health and Forestry Sectors, while recommendations for climate change mainstreaming were identified for the energy and transport sectors. Climate Change is recognised as one of the drivers of biodiversity loss and degradation in the National Biodiversity Strategy, and climate-related objectives are envisaged in the current National Environmental Strategy. The National Health Policy of the Republic of Moldova (2007-2021) sets a number of preventive measures to cope with unfavourable climate events. Specific measures in the public health sector are mentioned in the "Law on State Surveillance of Public Health (2009)". The objectives of the "Law with regard to the Service of Civil Protection and Emergency Situations (93 of 05.04.2007)" are to protect the population and provide help in emergency situations including those originating from climate hazards. Climate change related measures are further incorporated in the "Strategy for Water Supply and Sanitation until 2028". Moldova communicated its Intended National Determined Contribution (INDC) to the Secretariat of the UNFCCC on 25/09/2015. Within this, Moldova is committed to an unconditional target of 67% reduction of its greenhouse gas emissions by 2030 compared to the 1990 level. National commitments are in line with the emissions pathways towards 2050 that correspond to keeping global warming below 2 degrees Celsius (compared with pre-industrial levels). A Low-Emissions Development Strategy (LEDS) until 2030 has been drafted and will be adjusted in 2016 to the new global agreement adopted in Paris (COP 21).

However, when compared with the AA (Chapter 17), there are notable shortcomings:

- No national legislation is in place that addresses certain fluorinated greenhouse gases, nor any legislation regulating the quality of petrol and diesel fuels;
- As regards legislation on depletion of the ozone layer, the Regulation annexed to Law 854 does not yet regulate procedures for monitoring and inspecting leakages of

controlled substances. Obligations to recover, recycle, reclaim and destruct the used controlled substances are in place but need updating.

- The legislation that deals with establishment of so-called Emissions Trading System for greenhouse gas emission trading needs to follow latest global developments.

There is weak coordination between line ministries and relevant institutions particularly around developing and implementing the sector policies and strategies. There is also limited cross-sectorial awareness of policies and strategies and the importance of climate change to internal sector-based strategies. There is also a need to better use vulnerability and adaptation indicators in national policies and strategies, which is further aggravated by weak capacity of regulators/staff in raising awareness of how laws and regulations should ensure resilience.

## Civil Protection

The socio-economic costs of disasters' risks and weather hazards are significant for Moldova, and both their intensity and frequency are expected to further increase as a result of climate change. At the executive level, a standing Committee on Emergency Situations is chaired by the Prime Minister. It develops policy guidance and convenes to coordinate the prevention of emergency situations and mitigation of their consequences (GD 1340 of 2001). At the technical level, there is an inter-ministerial working group organised around the Helsinki Convention on the Transboundary Effects of Industrial Accidents. At the field level, inter-agency coordination is reported to be minimal at best. There are multiple inspectorates (ecological, health, labour), each occupied within its discrete scope of authority. A plan of cooperation between the Civil Protection and Emergency Situations Service (CPESS) and the EU's Director-General European Commission's Humanitarian Aid and Civil Protection department (ECHO) was elaborated on the medium-term with the focus on equipping firefighters. National training programmes were modified according to EU standards. Actions have to be taken to adopt and allocate resources under the National DRMS in preparation by the CPESS. Investments in prevention and preparedness need to be given priority. In 2012, the CPESS and DG

ECHO signed an Administrative Arrangement concerning the civil protection cooperation between the RMD and the EU's Civil Protection Mechanism (EUCPM). The CPESS started to cooperate with Departments/Services of disaster managements of Austria, Czech Republic, Estonia, Lithuania, Romania, and UK, and with international organisations such as ICDO, NATO/PfP and BSI. Moldova has signed an agreement of cooperation with Romania on cross-border operations in medical urgencies and a single emergency number 112 is being established. Also, a joint paramedic service within Republic of Moldova firefighters and the Romanian Mobile Emergency Service for Resuscitation and Extrication (otherwise known as SMURD) was created. The CPESS has initiated the development of the National Disaster Risk Management Strategy, and the first steps were made in promoting the institutional reforms in the sector. The government has made modifications in three Laws on civil protection and firefighting, and in two Government Decisions, as well as on a number of internal Regulations and Instructions. Modification of internal regulations of operation and monitoring of the CPESS of Moldova–Decision 461 from 2008 were made. Currently, the CPESS works on modifications of the Law 93 from 2007 of Civil Protection and Emergency Situations Service.

The current legal and institutional framework of Moldova ensures an operational and systematic collection of data on disaster losses, however, the classification of hazards and loss data indicators differs from the minimum requirements elaborated by the Joint Research Centre (JRC) for EU Member States (and international standards). Disaster loss data are thus not easily shared – neither internationally nor nationally. The International Flood Risk Management Plan for the Danube River basin, adopted in December 2015, lacks the definition of areas of potential significant flood risk (APSFs) for Moldova, which would be the basis for a national Flood Risk Management Plan. In 2013, the MoEnv elaborated regulations on flood management and drought management, which were approved by the Government.

There is no national legislation specifically addressing disaster risk assessment, and despite partly regulated provisions in sector legislation (for example, the regulation on flood risk management), even technical normative



regulation in each sector does not exist. The first attempt for a comprehensive approach has been made by CPESS, which recently issued a recommendation for elaboration of disaster risk assessment at local level. The recommendation outlines the content of the disaster risk assessment, but it is not in-line with EU law because it is mostly based on analysis of historical disasters' impact rather than a comprehensive disaster risk assessment.

## SUB-SECTOR ANALYSIS

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In Moldova there is a limited capacity for strategic planning and formulating financially sound programmes. The estimated 0.3% of GDP spent annually on environment falls short of the investment needs arising out of the AA. Inefficient environmental monitoring and assessment systems make implementation of the key environmental protection principle "*polluter pays*" difficult. Ineffective biodiversity conservation practices and low share of forests, protected areas and wetlands make Moldova's landscapes and ecosystems vulnerable to climate change, desertification and hazard risk issues. The disaster risk profile of Moldova is a seismic country dominated by climate-related hazards with economic impacts imposed by floods, drought, landslides and extreme weather events (like heatwaves, torrential rains and flash floods). Being a landlocked country with rather insufficient water resources, Moldova suffers on average four to five severe droughts every ten years, increasing in their intensity and frequency over time. Moldova still uses a narrow civil protection approach, which is too focused on immediate disaster response rather than on prevention, risk reduction and resilience. Updated policies and institutional frameworks are required, combined with increased awareness, better warning systems, cross-sector and cross-border collaboration, and local level action. According to Article 37 of the AA, Moldova shall "carry out approximation of its legislation to the EU acts and international instruments referred to in Annex III to the AA".

### Waste Management

Inefficient waste management continues to persist both at organisational and legislative levels. The worsening

situation, especially related to solid household waste, is caused by inefficient waste processing. Waste management consists of the following activities: collecting, transportation, treatment, recovery and recycling of valuable materials, and disposal/incineration of residual waste. According to the NWMS and the new draft law on waste, the responsibility lies on its generators under the principle "*the polluter pays*" or on its producers, under the principle "*the responsibility of the producer*". Although environmental protection is governed by 35 legal acts and more than 50 Government Decisions, the legal aspects of waste management are not sufficient, requiring both legal and institutional restructuring and creation of an integrated system of technical and environmental regulation in the field of selective collection for recycling, recovery, waste disposal and storage. Another negative aspect of inefficient waste management is that many recyclable materials are stored together with the non-recyclable waste. Therefore, a great part of their useful potential is lost. (This would include recyclable waste such as paper, glass, metals, plastic materials, and electrical goods. Being mixed and contaminated, from a chemical and biological point of view, the recovery of these recyclable waste products is troublesome. The separate collection and recycling of waste is very limited and insufficiently promoted and stimulated. The existing waste storage facilities are poorly designed, unequipped and not operated properly.

### Industrial and Hazardous Waste

Legislation in this area of approximation consists of two key directives of the EU environmental *Acquis*: Industrial emissions, integrated pollution prevention and control (Directive 2010/75/EC) and Control of major accident hazards involving dangerous substances (Seveso Directive 96/82/EC). Until present the collection and processing of the data related to the types and amounts of hazardous waste is performed under the old statistical forms adhered from the former Soviet Union, without being adjusted to the European list of waste requirements. Currently in Moldova two separate classifiers for waste and toxic waste are applied, while in the EU the solid waste classification is based on the European List of Waste (Commission Decision 2000/532/EC) and Annex III to Directive 2008/98/EC.

There are significant problems with the management of other flows of industrial waste like construction/ demolition waste and hazardous waste flows like medical waste, waste oil, waste tires, waste accumulators and batteries, waste electrical and electronic equipment.

### Medium-term challenges

Based on the National Waste Management Strategy (NWMS), the Regional Plans for North and Centre Development Regions, as well as the Waste Management Strategy for the South Development Region have been elaborated. These documents created necessary prerequisites for the development of solid waste management (SWM) in the regions. Starting in 2014, the MoEnv negotiated with EIB for a Moldova Solid Waste Framework Loan, with some Technical Assistance, for development of Feasibility Studies in three waste management regions. Nevertheless, there are some important tasks to be achieved in the short and medium-term:

- Implement the Action Plan of NWMS 2013-2027 and with particular focus on:
- Support of creation of Centre for hazardous waste; Creation of temporary storage points for hazardous waste at regional waste management facilities/landfills planned;
- Approve the Law on Waste by Parliament as soon as possible. The draft was approved by GD 775 on 28.10.2015 and passed the first reading in the Parliament on 3 March 2016 and subsequently support to elaboration of regulatory framework for the specific hazardous waste streams;
- Transpose all other EU directives and harmonise national legislation as foreseen in the AA EU-RMD;
- Develop and implement a financial mechanism according to “producer responsibility principle” by elaboration of specific regulations;
- Capacity development of the subsector institutions; to design targeted multi-year public investments and spending programmes, and allow for adequate instruments (grants, loans, guarantees, fiscal instruments, etc.) to support the investment needs for the waste sector and incentivise the private sector’s compliance;

- The administrative decentralisation Act 435 of 28.12.2006, art. 4 (1) (b) empowers and obliges local public administration to organise waste management in their localities. However, LPAs have little experience and are just beginning to develop the necessary capacities in this field. In order to improve the sustainability of the provided services, the LPAs of both (community and rayon) levels needs continuous support from the regional and central authorities and from the development partners as well;
- Improve hazardous waste data collection and processing based on EU list of waste;
- Actions needed to address historically accumulated hazardous waste (such as out-of-date industrial chemical stored at enterprises, laboratory expired reagents from education institutions, and obsolete pesticides.)
- MoEnv with mass media support should conduct information and awareness raising campaigns on the impact of poor waste management, particularly with hazardous waste management streams.

In terms of water supply and sanitation the medium term future will involve:

- Institutional strengthening and reorganisation; clear division of roles between ministries;
- Revisions/amendments of relevant WSS construction and design technical norms and standards;
- The National Agency for Energy Regulation (ANRE) becomes fully compliant with its legal obligations to act as independent WSS sector regulator;
- Through the Nistru and Prut river-basin plans the IWRM principles are gradually put in practice, accompanied by sub-basin management;
- Coordination with Ukraine and Romania is reinforced for managing the two main rivers, as well as Danube, especially regarding floods, droughts and pollution;
- Regionalisation of water companies in conjunction with cost-recovering tariffs is getting speed;
- Infrastructure regional water supply systems (North, Centre and South) become priority investment projects for national authorities.

## 10.2 Strengths/opportunities/ critical bottlenecks

A major bottleneck is the weak institutional structure, unclear delimitation of competencies, and limited capacity of the environmental institutions. Staff tends to be selected based more on political interests and less on professional skills and experience. In addition, there is limited interest of professionals to apply for jobs in the ministry, as the salaries are not commensurate to their level of qualification.

Moldova has signed 19 environmental conventions and regional treaties, but its participation remains passive and limited due to lack of capacity.

The following bottlenecks in the field of waste management are identified in the long run:

- passing of a legislative framework and lack of more detailed normative regulations on waste management that can ensure the environmental safety, adequate to the AA requirements and the EU legislation;
- weak implementation of the already existent legislative and regulating framework, inefficient motivation mechanisms of stimulations and minor penalties that encourage the infringement law;
- lack of sustainable SWM infrastructure and low capacity of institutions that could plan, organise and implement an integrated waste management system at national, regional and community level; absence of adequate storage facilities for waste disposal constructed and operated in accordance with the EU standards; lack of infrastructure for other categories of waste, such as construction and demolition waste, animal waste, etc.;
- chronic underfinancing, inefficient institutions and lack of clearly defined responsibilities for each participant involved in the SWM process;
- need for improved partnership and cooperation between the state institutions, LPAs, private sector, non-governmental organisations, civil society;
- low coverage with waste collection and transportation services in urban settlements and need for more dynamics to provide these services in the rural areas;
- lack of hazardous waste treatment facilities, including for hazardous medical waste;

- insufficient environmental education of the population, and a lack of skilled staff and expert potential in the subsector.

Water supply and sanitation also suffer from critical bottlenecks, including:

- Fragmented institutional set-up with overlapping responsibilities and divided authorities over budget and decision-making;
- Lack of coordinated strategic investment programming that results in a fragmented financing of infrastructure projects from various domestic and foreign channels;
- Chronic underfinancing and underestimation of investments needs. The sub-sector, not being perceived as a priority, has low capacity for strategic planning and formulating financially sound programs;
- Outdated technical norms, standards and regulations which hamper sustainability and maintenance of water and sanitation systems;
- Weak operational capacity of existing water utility companies, which are excessively fragmented and financially unviable, and cannot afford to invest.

## 10.3 Cross-cutting issues

### Gender equality and women's empowerment

On average women are more affected than men by the lack of water and environmental sanitation services. Consequently, according to different studies, they are more willing to pay for the improvement of services. Women tend to be more excluded from the decision making process as regards priorities for service-provision at the local level. There is a need to empower women to get more representation in decision-making bodies, and to become more vocal in defining priorities over resources allocation. Women are also more affected by climate change and disaster in Moldova.

### Anti-corruption

Corruption results from weak governance structures, which goes hand in hand with low transparency and a tendency for arbitrary decisions and favouritism, specifically in

procurements and the issuance of permits and certificates. Low transparency is also noted for the approvals of projects financed by the National Ecological Fund. Corruption persists also in the field of environmental protection.

### Transnistria

Cooperation between authorities on both river banks of the Nistru is especially important and should be further promoted in regard to civil protection, including disaster-risk and flood-risk management plans, as well as ecological security and waste management activities in the Nistru

River basin. The current level of cooperation with this region is evidently not sufficient in civil protection, while in the field of classical environmental protection cooperation is possible.

In order to improve the policy dialogue in the sector annual and semi-annual reports on implementation of sector and subsector strategies, action plans and programmes should be shared with development partners. Some of them can be found published on the relevant ministry or the GoM sites.

## 10.4 Key challenges to be Addressed within 2017–2020 period and beyond

To comply with AA Chapters 16, 17 & 22 and the National Environmental Strategy, Moldova needs to:

- Implement the Government's updated Action Plan for implementation of AA Chapters 16, 17 and 22 of the AA
- Recognise environmental protection as a priority for Moldova's sustainable development and significantly increase funding for environment
- Mainstream environmental requirements into relevant policies of other sectors; to adopt a whole-of-government approach and further improve the inter-sectorial cooperation and awareness of the environment as a cross-cutting issue, promote Green Economy principles in all sectors
- Implement the institutional reform in the sector, to update the legal framework (including outdated norms and standards) and to harmonise it with the EU environmental *Acquis*
- Assess the training needs and organise a targeted training and capacity development for the MoEnv and relevant institutions and in-line ministries
- Ensure transparency of the human resources selection process based on professionalism focused indicators. Improve environmental governance systems, in particular the enforcement
- Implement the steps highlighted in the Action Plans of the Environmental Strategy and the key subsector strategies
- Improve environmental education and awareness, use of environmentally friendly technologies, organic agriculture and green economy
- Improve significantly the environmental statistics and the monitoring systems, and
- Improve the financial programming and planning at central and regional levels.

### Water Supply and Sanitation

- To have by 2018 a functional analysis of institutions in the domain and elaboration of a concept of institutional reorganisation/restructuring
- Capacity building that supports the use, adaptation and transfer of new technologies and dissemination of best practices
- Elaboration of policy regarding protection of water resources; (both in terms of quantity and quality)
- Mechanism of putting law into practice, especially law 303
- Application in practice of IWRM, i.e. river-basin management organisations, sub-basin management

- Legal transposition and implementation according to the AA national action plan
- Development of the fit-for-purpose database and monitoring system that serve multiple actors
- Domestic international obligations by embedding the human right to water and sanitation into the national legislation
- Create an enabling environment in which water and sanitation services are provided in an affordable, sustainable and non-discriminatory manner and reach the most vulnerable part of population.

## Climate Change

To ensure the effective implementation of the climate change policy the following challenges need to be addressed:

- Absence of an overarching national climate driven mandate for coordination of national strategies and priorities
- Limited number of national climate change policies and strategies that make coordination difficult, *ad-hoc* and project driven
- Further implementation of the National Adaptation and LEDS
- Limited use of criteria and indicators to guide and monitor the work
- Establish sufficient links and synergies between climate change coordinating mechanisms and the coordination of other sectors of economy
- Improve the knowledge and capacities for climate resilient planning
- Ensure effective inter-ministerial and inter-sector coordination, across all relevant stakeholders and within the government
- Further integrate climate change adaptation in policies and plans at national, sector and local level, establishing a systematic process of identifying the climate change risk, combined with appropriate incentives and structures to incorporate adaptation into existing and planned policies, plans and budgets
- Further mobilisation of national and international financing for adaptation and ensure that financing flows to the local level, based on a realistic assessment of adaptation costs and identification of financing sources.

## Civil Protection

To ensure that Moldova's social and economic development is resilient to the impacts of climate change and natural hazards, there is a need to further:

- Improve the knowledge and capacities for climate and disaster resilient planning
- Ensure effective inter-ministerial and inter-sector coordination, including all relevant stakeholders within the government
- Integrate climate change considerations and the disaster risk management approach in policies and plans at national, sector and local levels, establishing a systematic process of identifying the risks, combined with appropriate incentives and structures to incorporate adaptation into existing and planned policies, plans and budgets
- Identify and mobilise national and international financing for adaptation, mitigation, preparedness and prevention and ensure that financing flows to the local level, based on a realistic assessment of adaptation costs and identification of financing sources
- Flood Risk Management: drafting of the Flood Hazard and Risk Maps; design and implement capacity building programme for flood risk management planning; develop, adopt and implement Flood Risk Management Plan for the entire country; enhance the observational network and hydrological forecast capacity
- Disaster Risk Assessment: elaborate hazard and risk maps in whole country for hazards other than floods
- Inclusion of Disaster Risk Reduction into Public Spending: to create legal and institutional conditions to introduce Disaster Risk Management budget allocation tracking and recording system
- Implement a regular programme of Host Nation Support exercises
- Volunteerism: adopt and implement the Law on volunteerism in civil protection activities; monitor the effectiveness of the adopted Law on volunteerism in Civil Protection (CP) activities; and develop and adopt strategies to sustain development of CP volunteerism

- Raising Awareness about Disasters: to implement National Communication Strategy
- Monitor the effectiveness and the achievement of objectives with concrete indicators more clearly
- Further maintain, modify (if needed) and use an Electronic Regional Risk Atlas.

### **Opportunities and 'Low Hanging Fruits'**

- Sector governance has to be improved and the key institutions restructured. Significant support is necessary for functional analysis, staff evaluation and training, restructuring and building capacities of environmental institutions on all levels: central, regional and local.
- Develop and support small and medium sized environmental grant programmes for CSOs in improving environmental education, public involvement and access to environmental information, reforestation, adaptation to climate change, energy efficiency, DRM, promoting organic agriculture and green technologies, biodiversity and wetland protection, and IWRM (water use and water protection) in Moldova's regions.
- Develop and support environmental grant programs for LPAs (including PPP partnerships) in improving management of waste at community and rayon levels, rehabilitation of degraded lands, organic agriculture, access to drinking water and environmental sanitation in Moldova's rural areas.
- Develop the Integrated Environmental Information System of Moldova.
- Develop a network of training centres in regions for improving environmental education and ensuring access to environmental information for all stakeholders.
- In order to improve the communication and exchange of information in the sector, the GoM can be supported in identifying clear monitoring criteria and in publishing the annual and semi-annual reports on implementation of sector and subsector strategies, action plans and programs.
- Create a project development centre for building Moldova's capacity in attracting climate financing and implementing green technologies and climate change adaptation measures.

# Energy and Transport

## 11.1 Energy: Introduction and context

The energy profile of the Republic of Moldova is impacted by very low reserves of solid fuels, oil, natural gas and poor interconnections for supply from alternative energy sources. With regards to electricity, the country relies on up to 80% of imported electricity, currently from the Transnistrian region (Russian owned power generation company MGRES) and from Ukraine (although purchases from Ukraine stopped in 2014). The remaining 20% power generation is based on gas-fired combined heat and power generation units (CHP), located on the right-bank of the Nistru, which has very low efficiency levels. The gas supply is fully dependent on imports from Russia. Moreover, MGRES and Ukraine depend also on Russian gas as well as coal from the Donbas region. The level of the security of energy supply is low due to the lack of proper interconnections with the European electricity and gas networks. Therefore, the conditions for opening-up markets are very difficult to meet and the energy supply is constantly at risk.

Moldova has been a contracting party to the Energy Community Treaty (ECT) since 2010 and is committed to implementing the second and third Energy Packages. Following Moldova's request in 2012, the timeframe for implementing Article 9 of the third Energy Package regarding the ownership unbundling in the gas sector was extended until 2020.

A Memorandum of Understanding between Romania and Moldova was signed in May 2015, to clearly define and prioritise the upcoming interconnections of power and gas systems of the two countries and ensure the access of Moldova to the EU internal energy market. This will improve the security of supply and contribute to solving some of the most critical problems of the energy sector in Moldova, including obtaining lower prices for energy.

Moldova is also suffering from a high level of energy intensity and important losses which, combined with the limited financial affordability of its citizens, leads to high

energy expenses in relation to the purchasing power of the population. Inefficient energy use also raises energy costs for industries, posing a serious bottleneck to growth and competitiveness. The energy infrastructure is another important challenge and the energy tariffs are in most cases below cost-recovery level. The majority of companies from the energy sector are facing financial difficulties, making it challenging to engage the necessary investments. The energy sector needs stronger, more transparent and independent regulation. Moldova's Energy Strategy 2030 aims to address these issues with medium and long-term solutions.

Moldova's top priority for the sector is to improve the security of supply and to reduce the energy dependence. The electric power system is physically still part of the Integrated Power System/Unified Power System of Russia (IPS/UPS) and is effectively not interconnected with EU networks. Moldova is committed to important investments in interconnectors with Romania and thereby with the



European markets as well as on diversifying the internal markets, for example, through introducing renewable sources of energy. The legislative and regulatory framework is advancing towards the reforms needed for such investments, but the process is slow.

From 2012 to 2015, Moldova made significant efforts to create grounds for diversification of natural gas and electricity alternative supply. The Iasi-Ungheni gas pipeline interconnection was finalised. However, in order to benefit from its full capacity, it is important to implement the final phase of the project both in Moldova and Romania and to establish the most suitable economic model to ensure the competitive use of the pipeline. The electricity interconnection projects with Romania were prioritised and the feasibility study for these interconnections was launched in December 2015. Once completed, the new power interconnections will allow for asynchronous integration of Moldova's electricity grid with the European Network of Transmission System Operators for Electricity (ENTSO-E).

Dependence on energy imports exposes Moldova to energy supply security risks. The risk of gas supply security was vividly apparent in 2009, when Gazprom halted gas supply to Moldova over its gas dispute with Ukraine. In 2013, Moldova submitted to ECT its Security of Supply Statement. In 2014, the Ministry of Economy developed the Energy Security Stress Test which provided a concrete Action Plan in case of natural gas disruption from Gazprom. Negotiations on debt restructuring in gas sector have not been completed and the outstanding debt still exposes Moldova to risk of further supply disruption.

The biggest and most pressing problem in the sector in Moldova is to increase the energy regulator's powers, independence and transparency of activity. The National Agency for Energy Regulation (ANRE) is the single authority for energy sector regulation (electricity, gas, heat and renewable energy) as required by the 3<sup>rd</sup> Energy Package. The independence as well as professional, technical and regulatory skills of ANRE's staff remain critical. The EU and other international partners have consistently insisted on

ANRE's independence. However, so far this has only led to limited commitment and engagement from the Ministry of Economy in solving the sector's fundamental issues, leaving ANRE vulnerable to pressures from the public opinion as well as, possibly, to political and/or vested interests. As a result, ANRE has not managed to properly fulfil its mandate and set appropriate tariffs in due time along the approved methodologies. As a consequence, energy operators are faced with financial difficulties which slow down the process of reform of the sector. Moreover, ANRE has sometimes been tempted to modify approved tariff methodologies during their validity period (and even before their enforcement) creating legal uncertainty. A new draft Law on Energy has been adopted by Government and awaits Parliament approval. The law clarifies and improves the role, governance and management of ANRE, elements which are vital for its functioning as a reformed, independent regulator. Its speedy approval and enforcement by the Government and Parliament is imperative for the sector. In April 2016, Moldova's authorities asked the Energy Community to help in performing an overall external independent review of ANRE.

According to the AA, Moldova is committed to transposing 43 EU Directives and Regulations relevant to the energy sector. Out of these, 12 Directives and Regulations were transposed before Moldova started provisional application of the AA in September 2014, based on its commitments in the ECT. Meanwhile, the deadlines for the transposition of the remaining EU Directives and Regulations largely expire in early 2017. A short-term priority for Moldova should be the implementation of the relevant natural gas and electricity market commitments as the AA deadlines have already expired (1 January 2015 – transposition of the third Energy Package).

In 2013, Moldova's 2030 Energy Strategy was approved. The Strategy has three main objectives which are: security of energy supply; competition and availability of affordable energy; and environmental sustainability and combating climate change. In order to ensure a better coordination of the implementation process, the Government of Moldova has developed a dedicated road-map. Among the seven

development priorities identified in “Moldova 2020” National Development Strategy, one directly refers to the energy sector: “Reducing the energy consumption via increasing energy efficiency and the use of renewables”.

Regarding the general structure of the energy market, with the amended Gas and Electricity Laws in 2014, Moldova has transposed the EU’s second Energy Package, although activities on restructuring Moldovagaz in line with the EU’s second Package are still pending. Adopting the secondary legislation on access to the network, grid codes and market rules remains a high priority. The new Law on Electricity and the Law on Natural Gas were adopted by the Parliament on 27 May 2016, in order to transpose the third Energy Package. The Law on Renewable Energy was adopted on 26 February 2016 after pending in Parliament since 2014. A lot of effort is still requested for the development of the relevant secondary legislation and monitoring of their proper implementation.

An Action Plan on Energy Statistics System at National Level was approved by the Government in 2014. It provides a basis for the transposition of the legal and regulatory framework of the EU acquis on energy statistics under the ECT as well as for its implementation.

The Law on Environmental Impact Assessment, adopted in 2014, is being implemented when designing the interconnections, like Ungheni-Chisinau pipeline. In addition, a National Emission Reduction Plan has been drafted, aimed at regulating *inter alia* the emissions from the power generation plants. However, its implementation remains in its infancy.

## ENERGY: SECTOR ANALYSIS

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### Electricity

Establishment of a functioning electricity market is in the preliminary stages in Moldova. The country produces only a fifth of the electricity it consumes. Since April 2015, MGRES has been the only supplier acting through an intermediary, the company “Energocapital” (a business

belonging to unclear owners in Transnistria), without any alternative suppliers which could offer competitive alternatives. Ukraine has shown some interest in 2016 to renew electricity exports to Moldova. Nevertheless, in order to clearly enhance the energy security of Moldova, the construction of the cross-border power links with the EU (via Romania) is vital to increase competition on the electricity market.

The security of electricity transport and distribution is also jeopardised due to the power suppliers’ financial difficulties that occurred in the past, leading to lack of investments and poor maintenance of infrastructure. Setting utility tariffs at cost-recovery levels should become a practice on medium- and long-term perspective, thus ensuring the financial viability of energy companies. The tariff adjustments towards the cost-recovery levels will, however, increase the need for social assistance to the vulnerable customers. The spending on the social assistance programs would have to increase in order to properly compensate the tariff adjustments.

### Natural Gas

Dependence on one single gas source (Gazprom) and one supplier (Moldovagaz) still exists. As a first step in developing an alternative supply route, the Iasi-Ungheni gas pipeline became operational in March 2015. The state enterprise Vestmoldtransgaz was established as a transmission operator. The state-owned gas supplier (Energocom) concluded a first contract with Petrom, a major Romanian gas producer. For the time being, the pipeline is hardly being used and only provides less than 1% of the needs of Moldova but it should become fully operational once extension is made to Chisinau. Intensive work is ongoing on preparing the construction of Ungheni-Chisinau pipeline and its connection to the gas ring of Chisinau and through it to the national gas transmission network (by mid-2018).

Gazprom owns 50%+1 shares in Moldovagaz and manages another 13.4% of the company shares owned by the Transnistrian region. In addition, Moldovagaz is the parent company of Moldovatransgaz (transmission system

operator) which also controls 70% of gas distribution networks in the country (with 12 subsidiaries), and therefore having a *de facto* monopoly on gas supply, transport and distribution. In addition, a key issue remains regarding the settlement of the historical debt of Moldovagaz to Gazprom, which currently constitutes about US\$ 5 billion, where more than 85% represents the debt of Tiraspoltransgaz – the Transnistrian region transport operator. A part from internal consumption, Moldova is also a transit country of Russian gas to Turkey and the Balkan countries.

### **District Heating (DH)**

DH is available only in urban areas and is the main heating source for households in Chisinau (72%) and Balti (57%). The DH financial status has been poor for more than a decade. The setup of a new company, Termoelectrica, by merging the DH plants in Chisinau and the heat distribution network in a single entity, offers a new start for DH supply. A mechanism needs to be agreed and financed on debt restructuring of Termoelectrica. The stumbling block in this sub-sector remains the tariff regulation. In spite of numerous tariff adjustment applications from Termoelectrica, ANRE has not yet reached a decision.

### **Oil stocks**

Moldova is completely reliant on imports of petroleum products to meet domestic oil demand. In terms of storage of petroleum products, the total capacity is over 150,000 m<sup>3</sup>, encompassing state and industry storages, but excluding the army. In addition, the Giurgiulesti terminal has eight tanks for petroleum products with capacities of 63,000 m<sup>3</sup> at its disposal. Moldova currently has no legislation on emergency oil stockholding. In the past the issue has not been given high priority but now new legislation is under development and an assessment of the cost needs is ongoing. The industry has no legal obligation to hold oil stocks. Oil security and transposition of the EU relevant Directive should be given more attention in the future by Moldova.

### **Energy Efficiency and Renewable Energy**

The latest period has shown good progress in this area with the approval of the Law on Energy Efficiency, the Law on Energy Performance of Buildings, and the Law on Energy labelling, and the Law on Eco-Design, in line with relevant ECT and AA commitments. Nevertheless, a lot of effort is still required for the development of the relevant secondary legislation and for monitoring implementation. A very large number of public and residential buildings are in poor condition, with high energy losses, particularly in rural areas, and the process of their improvement has only started.

The Energy Efficiency Agency (EEA) supports implementation of State Policy in the sector and the Energy Efficiency Fund provides financing for energy efficiency and renewable energy projects. Currently the government is looking at restructuring the Energy Efficiency Fund, which should secure the sustainability of its financing. This is a challenging process, which in spite of the willingness to establish a sustainable Fund, touches on political and commercial interests and may take time to resolve. There is a significant offer of financing facilities for energy efficiency measures, both in the country and in the region. If applications are rapidly prepared by the Government, they can offer great opportunities for leveraging substantial project financing.

The Energy Strategy 2030 sets the target of reaching 20% renewable share by 2020, (whereas the official commitment within ECT is 17% and was set in the new Law on Renewable Energy adopted in 2016). Until now, the legal framework for renewable energy had no capacity to attract investments. Currently only twenty small electricity producers operate on renewables, biogas, wind and solar. The new Law on the Promotion of Energy from Renewable Sources was finally approved by Parliament in February 2016, and will require a lot of effort for the development of the relevant secondary legislation and the monitoring of its proper implementation.

Energy efficiency in public buildings is one of the sectors included in the Regional Development Strategies 2016-2020 of the three development regions (North, Centre, and South). Each development region has also the energy efficiency Regional Sector Program in place, developed in line with national strategic planning documents. A clear delimitation of functional responsibilities between the institutions managing the programming, financing and implementation of energy efficiency projects is needed at regional and local level as well as a transparent decision-making regarding the supported initiatives.

Biomass is extensively used for heating by households, especially in rural areas. It is also more and more used in Public Buildings (Schools, Kindergartens...) thanks to active external support in the field. A possible transition from gas based heating towards biomass will create a biomass market and reduce the dependence on imported gas. While the local market for biomass fuel and technologies is rapidly evolving, attention needs also to be given to ensuring the quality of locally produced biofuel.

## 11.2 Transport: Introduction and Context

The transport sector is a key contributor to the competitiveness of Moldova. Between the seven development priorities identified in "Moldova 2020" National Development Strategy, one directly refers to the road sector: "Increasing public investment in the national and local road infrastructure, in order to reduce transportation costs and increase the speed of access".

The Transport and Logistics Strategy (TLS) 2013-2022, and the Transport Chapter in the AA are key documents in this area. The TLS supports the harmonisation of Moldova's transport system and legislation with EU standards,

legislation and regulations. It goes further to cover trade facilitation, customs and borders, airports and aviation, ports, and maritime/river transport. It builds on the Land Transport Infrastructure Strategy (LTIS) for 2008-2017 that covers road and rail.

Moldova has the following transport infrastructure: one main international airport, one main international fluvial port, 9,322 km of roads, and 1,156 km of railways. However, while sufficient capacity for transport and logistics exists, the condition of the existing infrastructure remains the key challenge. As a result of its infrastructure historic legacy, there are some duplicate and over dimensioned transport corridors. In addition, some parts of the transport infrastructure may not be at the locations where current and future economic activity takes place.

Main carrier in terms of freight and passenger traffic is the road sector with 97% of passenger and 87% of all freight, followed by rail with 3% of passengers and 13% of freight. In 2015, approximately 2.23 million passengers used Chisinau International Airport. In 2014, around 678,000 tons of cargo and 7,786 containers were transhipped through Giurgiulesti Port.

The transport sector of Moldova is both privately and state-owned with the road transport sector dominated by private enterprise, the rail sector 100% state-owned, the aviation sector being both privately and state-owned, and, finally, the maritime/ports sector mainly privately operated with the exception of Ungheni Port, which is a state-owned enterprise. The heavy involvement of the state in some of the sectors has resulted in slow reform and inefficiencies that have an impact on the economy as a whole due to the increase in costs of doing business in Moldova, either directly by increased tariffs for rail freight or by higher cost of air travel in comparison to the region. The necessary attention has to be given to ensure the equal representation of women in transport occupations.

## TRANSPORT: SECTOR ANALYSIS

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### Roads

The extent of Moldova's road network (excluding Transnistria) has changed little over recent years, with a total length of 9,322 km, of which 3,335 km are national roads. 92.5% of national road and 46.1% of local road length is paved. The density of the road network, 314 km per 1,000 km<sup>2</sup> and 2.6 km per 1,000 persons, is considered reasonable for a country of Moldova's level of development. The economic decline produced a considerable reduction in maintenance expenditure on infrastructure, including roads. Therefore, focus has been placed on repair and protection of the existing network rather than further expansion. The situation for local roads is worse, with 22% in fair condition and the remainder in poor to bad condition. The latter affects the access of rural population to social, educational, medical services greatly, as well as access to market.

The National Road Sector Program of Moldova is on track towards major rehabilitation and improvement of the network of main roads with the support of external donors. Extensive rehabilitation has been ongoing in the last few years; however, due to the budget constraints the investments in road rehabilitation has decreased dramatically in the last year. Despite progress on main roads, much remains to be done in improving local roads in rural areas. A Local Roads Sector Program should take into account the financial constraints, socioeconomic viability and the changing demographics in rural areas. The main short-term challenges for the State Roads Administration (SRA) are to avoid delays and over-stretched capacity.

In addition to mobilizing more resources, there is scope for improved efficiency and effectiveness of roads investments and management through more appropriate design standards, using technical innovations and improving network management approaches. It is recommended that more sustainable systems for maintenance and asset management are introduced with regular secured funding to be allocated for this purpose.

A new Road Transport Code entered into force in September 2014. The new code implemented the basic requirements of EU directives regarding access to the road transport market, including licensing of road transport companies and transport managers. The National Road Transport Agency was reorganised, most notably taking over regulatory responsibilities for heavy road vehicles and obtaining managerial and financial autonomy.

Currently, there is no coherent and consistent system for the planning and prioritizing of investments in the improvement and maintenance in particular of local roads. Because of this, such investments are susceptible to political interference and *ad hoc* planning. Travel patterns in rural areas are changing due to a declining rural population and service rationalisation programs in the education and health sectors. Both programs are demanding improvements to local roads to mitigate the impact on rural communities of longer travel distances to schools and hospitals.

Road safety remains a serious problem in Moldova, despite the National Strategy for Road Safety and some improvements in its implementation. Various factors such as the poor state of the roads, their design, driver behaviour and insufficient enforcement of road traffic regulations play a significant role. The National Strategy for Road Safety includes significant advances, among which are the establishment of road safety budgets and special attention to protect vulnerable road users. There has been recently some progress towards establishing a formal road safety entity/department to effectively coordinate the various institutions responsible for road safety on a permanent basis.

Inter-urban bus services are provided on regular basis by three major inter-city bus stations in Chisinau and 26 regional bus stations within the country. More than 21,000 mini-buses, as well as coach buses, are registered. 95% of minibuses involved in passenger transportation are more than 10 years old, and were often imported and registered as goods transport vehicles. These vehicles were retrofitted with seats and used in passenger transportation which poses a severe safety risk to the traveling public.

The decision making authority in this sub-sector is the Road Transport Development Department within the Ministry of Transport and Road Infrastructure (MTRI), which proposes tariff rates to be approved by the Government. The department's activity is also focused on passenger transportation policy and continuous overall monitoring of public road transport.

The freight road transport is relatively competitive in terms of price in spite of the generally poor condition of the roads. The sector is dominated by private enterprises and is seen as reasonable, reliable and competent by its customers. Nevertheless, some local manufacturers and shippers prefer not to use transport companies from Moldova due to service quality issues, such as unwieldy and unhelpful legal framework or its lack of enforcement. Issues of concern in the sector are the type and age of the vehicle cargo fleet, non-compliance with existing regulations, which also pose a serious safety issue.

## Rail

The national railway system of Moldova consists of 1,156km of non-electrified main lines (about 40km of which are double-track), with 90 stations and 648.5km of station loops and sidings. The gauge is 1,520mm (Soviet type), although 10.8km of main line and 32.3km in stations have 1,435mm gauge (European standards) – these are located in the border-crossing areas of Ungheni and Giurgiulesti. Lines totalling 422km are equipped with automatic locking system, which has been in use for more than 35 years. 589km of railway lines have the semi-automatic locking system, using unreliable electric air-wires. Nine stations still use manual control of switches and signals, where the control system design dates back to the 1940's. About 80km of line have no automatic control devices at all. Among them are the newly built rail sections Revaca-Cainari and Cahul-Giurgiulesti, where traffic control uses telephone communication. According to the Railway Company of Moldova (CFM), 77.6% of the control systems are in critically bad condition. The same applies to the communication system which has been in use since the 1970's and has not been renovated or upgraded since. The condition of the railway infrastructure reduces operating speeds. The

average technical speed is 34.5km/h. Speed limitations are an obstacle to the introduction of multimodal transport. There are no modern terminals on the network that can effectively operate ISO containers, controllers and swap bodies.

CFM is not commercially viable, is chronically underfunded and has obsolete rolling stock and infrastructure. The railways are considered a natural monopoly due to their major contribution to the state's economy, through exclusive rights of developing and controlling economic activities in the sub-sector. Its users often rate freight rail transport in Moldova as slow, expensive and unreliable. As a result, CFM has been constantly losing both market share and market in absolute volume terms. An important project dedicated to CFM started in 2014 with the support of EBRD/EIB/EU. It will permit the refurbishment and acquisition of new locomotives. The project also aims to improve safety and efficiency and promotes the restructuring of CFM and strengthening its institutional capacities.

The currently available revenue of CFM does not allow for significant rehabilitation and modernisation until the sector is restructured. The railways in neighbouring countries are electrified and, in some cases, have different gauges which present problems for transit. Some important sections of line and stations are located in Transnistria. In addition, sections of the north-south line, connecting the main international corridors, are located in Ukraine.

The local rail passenger operations are provided on the basis of state-regulated tariffs and are internally cross-subsidised within CFM by the freight revenues. This resulted in relatively stable passenger social-oriented tariffs over the last 15 years, while the freight rates were increased by several times. In the last few years, CFM launched two new international passenger train routes to Odessa and to Iasi, respectively.

## Aviation

Moldova currently has four airports: Chisinau, Marculesti, Cahul and Balti. Due to its favourable geographical position Chisinau International Airport is the main airport

of the country. In 2013, the airport was subject to a 49-year concession agreement to a private company – Avia Invest. The agreement is periodically publicly criticised due to the allegedly lack of transparency and disregard of the interests of the state when it was concluded. In 2014, the private company started the modernisation works at the Chisinau International Airport. The other airports in Moldova are currently not being used for passenger traffic, and despite attempts by Government to attract investors it appears that in the foreseeable future these airports will remain dormant.

Air travel to and from Moldova is characterised by limited competition and rather high costs compared to neighbouring countries. In accordance with the Common Aviation Area Agreement (CAAA) signed between the EU and Moldova in 2012, Chisinau has committed to transpose all relevant EU Directives and Regulations governing Civil Aviation as specified in the Annex III to the CAAA. This implies a total of 86 pieces of EU legislation, covering specific areas such as: Market Access, Air Navigation Services, Safety, Security, Environment, Social Aspects, and Consumer Protection.

MTRI is the responsible body for the national policy and legal framework in civil aviation. The Ministry is organised and adequately staffed for its legislative and policy making duties. In addition to its legislative/policy obligations, the MTRI is also the supervisory authority for the national airline Air Moldova and for the Air Navigation Service Provider (Moldatsa).

The Civil Aviation Authority (CAA) is the central specialised, executive, coordinating and control body of the public administration in the field of civil aviation. The CAA carries on the certification/licensing activities, takes decisions of administrative character, and approves regulations, norms and instructions in the field of civil aviation. The CAA is, relatively speaking, properly and competently staffed to fulfil its duties. Since 2013 and until recently, CAA was directly subordinated to the Government. The CAA has national competences for drafting proposed Laws or Government Decisions, but their submission to the Government must be

done through the Ministry. Unfortunately, no work sharing of the tasks between CAA and MTRI could be agreed upon in the last years. Therefore, no single Law or Government Decision transposing CAAA rules or regulations has been passed for the last 12 months. On 2 June 2016 the Parliament endorsed draft amendments to the Law on Civil Aviation, which provide for the return of CAA under the leadership of MTRI.

The sub-sector is regulated by the Law on Civil Aviation of July 1997, which among others defines the responsibilities of MTRI and CAA as indicated here-above. The Ministry indicated its intention to issue a new Aviation Code that would replace the existing law.

The flag carrier, Air Moldova, is comparatively small and remains operative by increasing its debt. The airline lacks the critical mass to compete, while at the same time it is too inefficient to grow to something larger in a competitive market. The market is further covered by a number of 'full service' carriers from both east and west. Around 29 destinations are regularly served from Chisinau. The destinations and flight frequencies are governed by bilateral agreements. A local private flying company has recently started to operate in Moldova. Although it can represent an incentive for the competition in the sector, serious concerns have been raised of possible conflict of interests of its owners. Ground support services are provided by two private companies, one of which is controlled by the private administrator of Chisinau International Airport. Over the past two years, the latter tried to expel the other private ground service operator using unfair competitive practices.

## **River and maritime**

Moldova does not have direct access to the sea, although an 800m long stretch of the River Danube has been developed as the port of Giurgiulesti is to provide a strategic asset for the country. The port consists of two sections, the Giurgiulesti state passenger and cargo terminal and the Giurgiulesti International Free Port (GIFP). The maximum depth at berth is about seven meters, which enables vessels up to 12,000 tons to load and unload at the port. Fluvial transport is

currently not possible in Moldova. Both the Prut and Nistru River are not navigable, due to silting of the riverbed, and require substantial investment in port infrastructure and the waterway itself in order to restart operations.

GIFP is operated on the basis of a concession and competes against other river ports across the region. The port handled a little over 678,000 tons of cargo and 7,786 containers in 2014. The main activities in Giurgiulesti port include: grain and vegetable oil export, oil import, import of gravel and sand, and container import and export. Since 2009 there has been no regular passenger service from the state owned and operated passenger terminal. However, some river-cruise operators included Giurgiulesti as a stopping point on Danube cruises. There are no inland waterway services in Moldova, though the “State Register of Ships” functions as a classification society for inland vessels.

Moldova’s fleet remains on the blacklist of the Paris Memorandum of Understanding on Port State Control. The necessary changes to legislation and operational practice

need to be developed and thoroughly implemented.

### **Trade Facilitation Infrastructure**

Trade facilitation infrastructures are of mixed quality. Border Crossing Points (BCPs) are generally of sufficient capacity, assuming that existing commitments under international agreements are respected. Access roads to BCPs are currently not facilitating traffic separation as necessary. Inland Customs Depots, especially in Chisinau, are not fit for this purpose, as they are located in residential areas and were not specifically designed for their current use. In the different transport sectors, some priority routes for investments have been agreed with neighbour countries in the framework of the Trans-European Transport Networks (TEN-T). However, Moldova needs to improve its transport interconnections with the EU (via Romania). The construction of a new road bridge (Ungheni-Ungheni) was included as a priority on the transport agenda of both Moldova and Romania. Moldova is also a participatory country to the Danube Region Strategy which focuses among others on improving mobility through intermodal rail, road, air and inland waterways sectors.



## 11.3 Key challenges to be addressed within 2017–2020 period and beyond

Key issues to be addressed regarding *the energy sector* include:

- Ensuring progress in the transposition of the EU's third Energy Package regulations for natural gas and electricity by implementation of the new laws and adoption of the secondary legislation
- Preparing the technical projects for the energy interconnections with the EU based on ongoing feasibility studies
- Identifying and implementing priority investments in domestic electricity and gas transmission capacity to enable the stable operation of the system after interconnections
- Completing the District Heating sector reform and the corporate restructuring of Termoelectrica and CHPs
- Initiating debt restructuring with Moldovagaz
- Reviewing tariff-setting procedures and methodology, including the mechanisms for the recovery of accumulated tariff deviations, and ensure full compliance with the procedures and methodologies, established by ANRE; Ensuring the independence of ANRE
- Continuing to promote energy efficiency and the energy from renewable sources
- Concerted action by line ministries, EEA and Regional Development Agencies to clearly delineate responsibilities for programming and implementation of energy efficiency actions
- Improving the national energy statistics
- Conducting a sector institutional review with a subsequent restructuring and capacity development.

Key issues to be addressed in *the transport sector* include:

- Developing a medium term action plan and strategy for the development of the transport sector, to fulfil Moldova's commitments under the AA
- Maintaining Road Fund allocations for road maintenance in line with its commitments under the TLS and its agreements with the development partners
- Improving procurement and contract administration capacity of the SRAs to implement the investment plan in the LTIS and TLS
- Improving procedures and design standards in road construction, increase the quality of design and ensure the competitiveness on the market
- Establishing an independent Road Safety Government champion and provision of budget to implement the National Strategy for Road Safety
- Developing a National Local Road Program that addresses financial sustainability, maintenance, prioritisation, and technical standards
- Adopting appropriate legislation and regulations to modernise the railways sector in accordance with the commitments as part of the requirements for EU accession set forth in the AA
- Ensuring better coordination of the respective responsibilities between the CAA and MTRI, and ensure the implementation of the CAAA commitments
- Restructuring the Giurgiulesti Harbour Master Service and introducing effective procedures for supervision of the merchant fleet registered under the flag of Moldova to ensure compliance with international conventions.

# Agriculture, Food Safety and Rural Development

## 12.1 Introduction and Context

Agriculture has always been an important sector for Moldova's economy. Due to climate conditions and its rich soils, Moldova has specialised in the production of high value crops such as fruits and vegetables. In 2014 agriculture accounted for approximately 13 % of GDP and for 30% of total employment. Together with agro-processing it generated 17% of the GDP. In 2014 approximately 60% of the total population lived in rural areas (approximately 2.1 million people out of 3.6 million in total).

### Policy Coherence

In 2014 the EU and the Republic of Moldova signed the AA, including the DCFTA. Title IV, Ch. 12, art. 67-70 of the AA refers to cooperation between the Parties in the field of agriculture and rural development. Article 68 of the AA defines some of the areas of the cooperation between the Parties in the field of agriculture and rural development. Article 70 of the AA states that Moldova shall carry out approximation of its legislation to the EU acts and internal instruments referred to in Annex VII. This Annex covers policies on quality assurance, organic farming, marketing standards for plants seeds of plants, products derived from plants, fruits and vegetables, as well as marketing standards for live animal and animal products. Timeframe for the implementation for most of the acts is between four to five years of the entry into force of the AA.

The agreed Government plans for 2014-2016 are outlined within the National Action Plan for the implementation of the Association Agreement 2014-2016 (NPAA). According to the Plan, the EU and Moldova will cooperate to promote agricultural and rural development, in particular through the progressive convergence of policies and legislation.

On October 12 2015, the Government reviewed the NPAA and improved it. Experts claim that in the updated version of the NPAA, the previously established shortcomings have remained, including:

- General and confusing wording of commitments, which sound more like objectives than actions;
- Assumption of commitments that are in fact the authorities' basic institutional obligations;
- Assumption of commitments that do not always qualify as strategically important actions, since they are inherent for monitoring policy papers;
- Lack of clear consistency between the Association Agenda implementation measures and priority;
- Lack of clear separation of specialised institutions' implementation responsibilities;
- Lack of clear prioritisation of actions for achievement of relevant objectives of the Association Agreement;
- Unannounced revision of the NPAA implementation deadlines.

It is recommended that in cooperation between governmental and non-governmental institutions, a process of clarification needs to take place so that the

monitoring of implementation and expected results could be clear and credible.

## Capacity

The public sector still needs to implement capacity building for enforcement of the strategic approach on sustainable development of the agro-food sector. Policies need to be better planned, implemented and finally evaluated. There is need for better statistical data provided by the Agricultural Information Centre (AIC) and strengthening the analytical capacities of the Ministry of Agriculture and Food Industry (MAFI).

Low salaries are a major factor for high staff turnover in public bodies such as the Agency for Interventions and Payments in Agriculture (AIPA) and loss of specialists. These agencies, like the National Food Safety Agency (ANSA), also experience financial difficulties in implementation of policies as well as in covering running costs.

The relevant public institutions regularly fail to allocate financial support to farmers on a timely manner. Most subsidies in 2015, for example, were not paid on time thus reducing their effectiveness. The Wine and Vine Fund (ONVV) has not received government support to date since its creation in 2013.

Due to high fragmentation of arable land in Moldova, there are a large number of small and often economically weak holdings (farms). Aggravating the matter is that local governments are often weak and underfunded. In addition, civil society is concentrated in the capital and bigger cities, while remaining weaker in the regions and rural areas.

The sector is expected to benefit from projects developed under the National Strategy on Regional Development (NSRD) 2016-2020, currently undergoing inter-ministerial reviews. Additionally, the National Strategy for Investment Attraction and Export Promotion was adopted by the Government of Moldova in March 2016.

However, major gaps still exist in the policy framework including:

No clear division of labour on the rural development policy between ministries. The rural development policy is within the competencies of three ministries:

- Ministry of Agriculture and Food Industry,
- Ministry of Regional Development and Construction,
- Ministry of Economy.

In order to solve this issue, MAFI has started inter-ministerial consultations on the possibility to bring the rural development policy under its competences.

Implementing policies remains a major challenge, such as implementation of the Strategy for Institutional Reform of the Forestry Sector in Moldova, prepared in 2012, but never receiving final Government approval. The strategic policy framework for agriculture and rural development seems well developed, but some stakeholders complain that several strategic documents are prepared over the years with little measurable impact. It may be caused by the fact that ex-ante policy analysis is too often ignored and thus does not contribute to realistic policies that in turn lack support from business, society and the public administration. Additionally, there are complex, ongoing challenges in agreeing policies with Transnistria in the field of agriculture.

Bearing in mind that the agriculture is assistance dependant, coordination in the sector is an ongoing challenge that deserves more attention. MAFI organises donor coordination meetings. In 2015, two meetings were held.

The sector is divided at the sub-sector level between agriculture, food safety, and rural development.

## SUB-SECTOR ANALYSIS

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### Agriculture

The implementation of the DCFTA presents an opportunity for Moldova's agriculture to get access to high value European markets and diversify its exports destinations. The main challenges from the DCFTA are ensuring food safety requirements and raising the competitiveness of

its food-safety sector. Moldova may use its agriculture and food advantages, which include rich soils, favourable climate and agricultural traditions. Products with growth potential include fruits, especially grapes.

There is enormous potential in the export of organic agricultural and food products. The challenges are to increase the share of organic produce, increase the profits of current and new organic producers, invest in organic processing and offer higher value added products ready for consumption. There is a need to create sustainable solutions, such as building local expertise, building strong representation of the sector towards the government, knowledge sharing and dissemination, and further promoting the organic sector towards local customers and business clients.

### **Food Safety**

Food safety control lies within the responsibility of the National Food Safety Agency (ANSA), which was created in 2013 by merging and structurally optimising the functions of several institutions with control and surveillance functions in the food safety area. ANSA requires further capacity building to be able to provide an effective control system and comply with EU standards. This is necessary for food for the internal market and for products intended for export to the EU.

### **Rural Development**

In terms of rural development, 60% of Moldova lives in rural areas and a quarter is employed in agriculture with low levels of productivity. There is a widening gap in living conditions and wages between rural and urban areas. In 2014, disposable incomes per capita in rural areas of Moldova were 28.7% lower than in urban areas. Widespread poverty and wage discrepancies between rural and urban areas, and between Moldova and other states, have been a reason for migration for many people. According to UNDP, 82% of the poor reside in rural areas and rural population faces other multiple deprivations, such as access to safe water, sanitation, education and health services. The urban-rural divide has emerged as a key development challenge for Moldova.

The sector which will be most influenced by the AA/DCFTA is agriculture. It is also the least prepared for tough competition, mainly due to low productivity and outdated technologies. Since 2000, agriculture has shown much slower and more unstable growth patterns than the rest of the economy. This is one of the reasons for the fall of the sector's share in GDP. This trend will probably continue.

Implementation of the DCFTA presents an opportunity for Moldova's agriculture to get access to high value European markets, but it also means greater competition from the EU producers. Moldova's agriculture sector is not productive enough and is challenged by using outdated technologies. The biggest pressure from the DCFTA (such as direct competition leading to decreased production) is projected to be for live animals, meat, and dairy. To protect the most sensitive sectors of Moldova's economy, the liberalisation scheme was introduced. Moldova does have some competitive advantages with experts predicting steady, but slow growth of areas under the organic crops.

The growth of Moldova's agriculture is hindered by a number of internal constraints. The sector suffers from lack of investment, capital and credit availability, while services provided by the state, especially education, research and extension services offer little value for money. What is more, a large share of agricultural holdings is considered 'very small'. Owners have limited capacities to cope with market and weather risks, and access high value markets. Small owners have low bargaining power and they find it difficult to provide larger quantities of products of the same quality in a timely manner. The food processing industry requires investments and modernisation, as a large part of its equipment and technologies are outdated.

The growth of the agriculture sector in recent years has also been unstable due to external shocks, mainly caused by the weather. Another serious external problem is dependence of imported input materials: seeds and seedlings, agrochemicals and fuel, which make the sector vulnerable to prices fluctuations.

Plant production accounts for almost 70% of total agricultural production. One of the reasons for this is the

predominance of excellent chernozem soils. However, the vast majority of cultivated lands are used to produce low value crops (cereals and industrial crops). The full potential of fruit and vegetable production is not achieved, due to the lack of funding and low supply of large volumes of homogenous produce.

Animal production accounts for slightly over 30% of total agricultural production. The livestock sector is dependent on households and small-scale peasant farms. Its challenges include cheap livestock imports and limited feed supply. It is claimed that pastures, which belong to the local authorities, are used too extensively, which leads to shortage of feed.

In terms of the critical issue of food safety, meeting sanitary and phyto-sanitary requirements is critical for the increase of competitiveness of the agricultural sector, both for internal markets and export. In 2015, the progress in terms of complying animal production food safety criteria on the European market was very limited. One of the most pressing issues is optimising the laboratory setup, improving the reliability of lab testing and achieving laboratory accreditation.

Rural development growth is overly dependent on private consumption, fuelled by the remittances sent by Moldova's labour migrants. With continued migration and aging, future growth prospects are undermined. Moldova increasingly needs new engines for economic development that would combine economic expansion with social inclusion. There is a strong need to attract job opportunities in rural areas of Moldova and find ways to revive the interest of young people to find work in the agriculture sector.

Another pressing problem in the rural areas is the poor living conditions. Widespread poverty and wage discrepancies have been a reason for many people to emigrate. Rural infrastructure is in a bad shape, which makes living in rural areas unattractive. Sustainable development of Moldova is also threatened by environmental issues. Apart from serious droughts, the problems are posed by high pollution of water and erosion of the soil.

## 12.2 Strengths/opportunities/critical bottlenecks

Critical bottlenecks demanding greater attention from policy makers in *agriculture* include:

- Agricultural holdings are fragmented and economically weak. In 2011, of 900 thousand farms, 780 thousand were no bigger than 2 hectares. The large number of small-scale farmers has limited capacity to cope with market and weather risks, and access high value markets. They find it difficult to meet the expectations of retail chains in the EU to timely supply larger quantities of products of the same quality.
- The food processing industry requires modernisation. Processing equipment and technologies tends to be outdated. Many businesses lack modern management practices and necessary investment capital. There is also need for the development of post-harvest infrastructure.
- Moldova's agro-food sector needs investment, capital and access to credit. The main reasons mentioned for limited access to credit for the agro-food sector are collateral requirements and high interest rates.
- According to the study by the World Bank 'Moldova; Special Topic: Public Support to Agriculture', government support for agriculture, both via direct spending (subsidies, services and donor programmes) and tax relief, amounts to 2% of GDP. Efficiency and effectiveness of agricultural subsidies appears to have improved in recent years. Yet, there is a room for rationalisation of tax advantages. Other opinions suggest that subsidies should be evidence-based.
- Significant improvement in services supporting agricultural competitiveness is needed. The education system suffers, *inter alia*, from outdated curriculum and syllabi; aging facilities and equipment; non-adapted teaching staff; poor communication with the business; lack of private sector's involvement. Similarly, research and innovation system is weak and requires more funding and reforms. Also, further development is also needed in the case of agricultural extension services, which were established in 2002 with the World Bank support. Nowadays, the services cover about 44% of the country and 49% of farms. Also

their activities are piece meal and more comprehensive on-going assistance is needed, so that farmers may produce more and better.

- Moldova's agriculture sector is dependent on imported inputs, which are agrochemical products, seeds and seedling and fuel. In the case of seeds and seedling, the situation is aggravated by variety testing service which tests on compulsory basis, any new variety before allowing it for sale on the domestic market. The process is lengthy and costly to businesses and particularly burdensome to producers of fruit and vegetables.
- Some experts point to farmers' cautiousness towards the EU market. For many farmers the EU markets seem difficult and demanding, therefore they prefer to stick to the markets which they already know.
- An important aspect of organic production is to mitigate risks related to possible fraud, or misconduct during the organic certification process in order to maintain the high quality of products and secure a high level of customer trust towards Moldova's organic sector. There is a need to strengthen the policy and local regulatory environment for the organic sector to ensure that the certification process is sound and trustworthy.

In regards to the critically important area of *food safety*, the following challenges and bottle necks persist relating to the capacity of ANSA to implement its mandate:

- Risk Assessment and Economic Analysis: Regulations and investments in capacity building for food safety and agricultural health should be based on considerations of costs, opportunities, and risks.
- Regulatory: The reform of the regulatory system needed to implement the laws is largely still pending, and further revisions of the laws may be desirable. Thousands of technical rules require reassessment for compatibility with international standards principles and to determine whether they contribute to market and private sector development, in particular to the food and agriculture sector.
- Certification: New by-laws based on international standards and regulations should be developed, the operating implications of the revised regulatory rules for quarantine and inspection should be signalled, and changes should be made to daily enforcement practice.

- Laboratory Systems: Each government agency involved in SPS management in Moldova appears to have its own system of central and regional labs. Under-funded, poorly equipped, and lacking trained staff, many labs are unable to perform their designated functions. This is particularly the case for rayon (district) labs. It is more desirable to develop well-defined authorities backed by central control (reference) laboratories with adequate equipment and staffing. Such labs might allow the consolidation of resources for international accreditation. It would also be desirable to indicate areas in which private sector laboratories can take on an increasing role in certification functions.
- Border Control: Assistance is needed to bring these systems into conformance with international requirements, as necessary. Investment in information and communications technology (ICT) for the veterinary and plant inspection services is needed to keep them up to date with customs procedures and to improve the accuracy and transparency of their data management.
- Monitoring, surveillance and control of animal disease/rendering: The present system for stamping out livestock diseases should be combined with a comprehensive restocking program to align producer incentives with public health and agricultural health priorities. The basic system needs to operate for animal and product destruction, as well as rendering or BMB (bone meal and blood) processing and the back-end disposal of waste and bio-hazard materials at the local level. Additional donor funding may be needed initially to support emergency operations related to destruction of free-range poultry flocks (ducks and geese) in the event of the spread of avian flu.
- Pesticide Management: Thousands of tons of obsolete pesticide left over from the Soviet era constitutes severe environmental, agricultural, and health hazard in Moldova. Additional assistance is needed to eliminate Persistent Organic Pollutants (POPs) and design a system for pesticide container collection.
- Information and Education: Awareness raising and education for farmers, food handlers, and consumers are important elements in improving food safety and agricultural health, and programs to this end should be developed or reinforced in Moldova.

- Private Sector: Moldova's food industry needs upgrading in facilities, equipment, as well as quality and safety management skills. Deficient public infrastructure, such as poor water quality, also increases the cost to the industry of meeting food safety standards, hence final product cost.
- Transparency: Firms will need to ensure full transparency, especially as regards certification for export operations.

In relation to *rural development* urgent attention is needed on:

- Subsistence and semi-subsistence farms: In 2011 out of 900 thousand farms, 780 thousand were not bigger than 2 hectares. Land consolidation seems critical for the well-being of the rural population.
- Rural infrastructure: Water supply and sewerage are collapsing. In rural areas 11% of the population has a technical connection to the sanitation networks, but in reality only 2% have functioning sanitation facilities. As result, most rural people use pit latrines which seep into water supplies. Improvement is also needed in the case of local roads in rural areas, which have been under-invested.
- Water Quality: Lack of rudimentary sanitation and excess use of fertilizers has led to an increase of polluted waters. As a result, over 50% of the population of Moldova consumes poor quality water which harms public health.
- Due to migration the agriculture sector has been deprived of much of its skilled workforce.

The main *strengths* of Moldova's agriculture include:

- Fertile chernozem soils and favourable climatic conditions;
- Long-standing traditions in production of wine, fruit and vegetable;
- Proximity to high value markets;
- High potential of growth in production, processing and storage of agro-food products.

## 12.3 Cross-cutting issues

*Gender equality and women's empowerment* are critical cross-cutting issues in the sector with patriarchal attitudes still commonplace. This is exemplified by the pay gap and low share of women entrepreneurs. Violence against women is a serious problem. A 2011 study carried out by the United Nations estimates that seven out of ten women in rural areas (greater than the six out of ten urban areas) suffer from spousal/partner violence.

*Environment and climate change* are also particularly important for the sector with severe droughts occurring every two or three years. Development of weather-related risk mitigation instruments is vital (for example, the 2012 drought reduced agricultural output by 22.3%; the 2015 drought along with the Russian embargo reduced the output by 13.8%). Climate change may additionally further reduce water supplies with water shortages expected to be a barrier to development by 2030. In spite of several investments from donors, the irrigation systems remain largely obsolete, therefore a large chunk of agriculture is rain-fed. Sewage treatment systems in rural areas are often non-operational. This lack of treating sewage leads to high water pollution in these areas. Another serious problem is the degradation of soil, as almost 50% of agricultural land is classified as degraded. Unsustainable agricultural practices, poor management of waters, and degradation of forest belts are the chief culprits. Forests account for 11-12% of the total area, whilst the EU average is 45 percent. The low share of forest areas contributes to soil degradation, floods and landslides, and is partly caused by unregulated harvesting. Regulations on land lease seem to facilitate land degradation. It provides for three year fixed-term contracts or five year extendable contracts. In the case of three year fixed-term contracts, temporary land users strive to get maximum benefits from the soil, often ignoring the environment needs.

As with other sectors, widespread corruption is widely perceived to be one of the key challenges to investing in and growing the sector. This challenge is further hampered by political patronage in public administration.

## 12.4 Key challenges to be addressed within 2017–2020 and beyond

To accelerate growth and fully use benefits offered by the AA/DCFTA Moldova should take a number of measures to ensure competitiveness of the agriculture and food industry, and prepare the sector for direct competition with the EU producers. These include:

- Alignment of agriculture and rural development provisions and policies with the EU standards
- Establishment of missing systems of statistical data and enhancing the analytical capacities for better evidence-based policy making
- Strengthening the government capacity to attest the safety of Moldova's agro-food products
- Update and development of the rural development policy and ensuring a proper cooperation mechanism between different line ministries which have responsibilities in this area
- Ensuring evidence-based subsidies
- Provision of better agriculture knowledge system, including comprehensive on-going assistance
- Provision of investment, capital and access to credit
- Facilitation land consolidation and creation of producers groups
- Adoption of sustainable land management and conservation instruments.
- Modernisation of food processing industry
- Liberalisation import regime for inputs (seeds, seedlings, fertilizers, pesticides)
- Development of post-harvest infrastructure.
- Provision of access to quality water for irrigation and for consumption
- Improvement of rural living conditions and wages
- Provision of climate-mitigation measures
- Securing political and economic stability
- Tackling corruption and patronage.



# 13.

## Transnistria

### 13.1 Introduction and context

Transnistria remains one of the stumbling blocks on Moldova's approximation with the EU. In 2015, and reiterated in 2016, the Government of Moldova announced reintegration as one of its priorities. The reintegration of the Republic of Moldova should contribute immensely to economic development and the population's living standards by facilitating private sector activity and by upgrading the social services and infrastructure.

International donors, including the EU, supported this priority by issuing a set of recommendations. In response, the Government revived the inter-ministerial Reintegration Council meetings, launched inter-ministerial dialogue on reintegration, and requested sectoral inputs as per conflict settlement vision by mid-2015. The Government also requested the EU's support in developing a transitional legal framework on the Transnistrian settlement process. Additionally, the Government is considering upgrading the Bureau for Reintegration to a Ministry of Reintegration, thus boosting its resources and status.

The major gaps in policy and legal framework are a) the limited political will and direct decision-making competences in support of the Chief Negotiator's mandate ;(b) the lack of efficient inter-institutional dialogue between line ministries and between the legislative and executive powers; c) lack of a mid-term Reintegration Action Plan; d) and the lack of a national communication policy on the matter, particularly in the Russian language, reaching out also to the Transnistrian residents, with regard to explaining the existing national policies and progress made for the purpose of the social, economic and political rapprochement between the two banks of the river Nistru.

Under the OSCE-coined confidence building measure (CBM) policy the EU and other donors have been running

CBM programmes and projects aiming to build ties and partnerships between CSOs, businesses from both banks of Nistru river, and support infrastructural development in the region (mainly the Security Zone).

According to an impact evaluation for the CBM Programme, carried out by the EU Delegation to Moldova in September 2015, CBM produced significant development results and *"was effective in increasing cross-river partnerships in economic, social and cultural sectors. Grass root-level initiatives related to the policy level through greater acceptance of their legitimacy, expansion of a pro-integration constituency and empowering local actors towards change. As a result, there is greater confidence between institutions and professional groups, and more trust between individuals"*. The CBMs process can only represent an incentive for bringing both banks closer together. However in order to allow for a behavioural change at political (5+2 and 1+1 formats), technical (Working Groups) and social levels, strong will for cooperation is needed from both sides. Additionally, donor-driven CBM partnerships resulted in becoming an accepted, but not in all cases wanted, norm for the Transnistrian "officials". Hence a significant number of administrative obstacles to cooperation between CSOs, businesses and individuals, which undermine CBM partnerships' mid- and long-term sustainability,

and, together with a widening gap of perceptions and mentalities, as well as a growing experience of living apart, particularly in youth, present challenges for the CBM policy's efficiency in the long run.

In the last year the situation was marked by political instability and power struggle both in Chisinau and Tiraspol. With political negotiations over the establishment of the Government (invested on 20 January 2016) and forthcoming presidential elections in October 2016 (the current President's mandate ran out on 23 March 2016) in Chisinau, the political context of the settlement process is very complex. In Tiraspol, the political environment was shaken by the power reshuffling in the "Supreme Soviet" (legislative body) followed by ongoing power struggle between the "President" and the head of the "Supreme Soviet" affiliated with the largest business holding "Sheriff". The struggle in Transnistria is expected to become more intense closer to the end of 2016, particularly in the run-up to the "presidential election" in December 2016. There is an increased number of problematic areas, which make any progress in the settlement process rather difficult. These issues include: increasing number of criminal cases; freedom of movement issues, particularly Transnistria's concerns about the Moldova-Ukraine joint control at the border crossing point Kuchurgan, and over the presence of Moldova's Border Police therein, as well as Chisinau's concerns regarding the free movement of persons across the internal boundary line; unresolved issue of vehicles bearing Transnistrian number plates<sup>79</sup>; the change of status-quo regarding the movement of freight trains going to and through Transnistria that was implemented jointly by Chisinau and Ukrainian authorities in order to align their respective procedures to the Chisinau-Tiraspol Agreement from 2012; the tense situation around the farmlands belonging to Moldova's farmers seized by the *de-facto* authorities; lack of progress and improvement in the situation of Chisinau-administered Latin-script schools in Transnistria; and human rights violation issues and the tense situation in the Security Zone. Last, but not

least, the significant restrictions imposed by Tiraspol on the OSCE Mission to Moldova staff members, on travel to Transnistria, remained in place since October 2013. The years-long restriction on the entry of Chisinau officials in Transnistria has also remained in place.

The economic situation in Transnistria is dire due to structural (decline of Transnistria's industrial base) and external factors (decline of Russian financial transfers in real terms). The region has suffered serious budgetary losses since early 2014, with the highest budget deficit ever registered in 2015. The implementation of DCFTA in Moldova since September 2014 caused a series of complaints from the Transnistrian leadership with regard to a significant drop in exports to EU member states. One of the implications of invoked "economic blockade" by Tiraspol was unpopular measures taken by the Transnistrian leadership to cut pensions and salaries since early 2015. However, an important achievement was registered in the application of the DCFTA in Transnistria. Chisinau authorities agreed to consider that the conditions for DCFTA application on the entirety of its territory were fulfilled, having committed to making special arrangements for implementation with Tiraspol directly. Therefore, it is paramount that in medium term the EU remains engaged to work out concrete technical mechanisms meant to facilitate the implementation of DCFTA in Transnistria as of January 2016 and throughout 2017. The application of DCFTA rules in Transnistria, however, began with a disappointment for a number of Transnistrian economic operators.

Programming in Transnistria is clustered around three themes: Human Rights; Civil Society; Trade and Economic Development.

## SUB-SECTOR ANALYSIS

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### Human Rights

Transnistria has not been part of a number of international human rights agreements in the last two decades. As residents of an unrecognised entity, people from Transnistria often seek justice within the right bank of the Nistru river

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<sup>79</sup> The second EUBAM proposal from 2015 does not refer to neutral licence plates but proposes to Chisinau to recognise the current TN number plates.

and at international judicial systems. The European Court of Human Rights (ECtHR) stated that even if Moldova does not execute control over the territory of Transnistria, it has a positive obligation to take steps to ensure protection of the people's rights (*Ilascu and others vs. Moldova and Russian Federation*<sup>80</sup>). In 2012, the Centre for Human Rights (the Ombudsperson Office) opened an office in Varnita village (Anenii Noi district) to react to human rights violations committed in Transnistria. Cooperation between Ombudsperson in Chisinau and "Ombudsperson" in Tiraspol is almost absent, imposing difficulties in tracking human rights violations in Transnistria.

In February 2013, Thomas Hammarberg, a Senior UN expert and former Commissioner of Human Rights at the Council of Europe, produced a report with 38 recommendations on the human rights situation in Transnistria. He recommended that the region should develop a human rights action plan. In November 2013, the *de-facto* authorities drafted an Action Plan to implement Hammarberg's recommendations in nine priority areas, mainly focusing on investments without addressing the key gaps from the region and requested support in the establishment of a joint coordination platform to monitor and implement them. The *de-facto* authorities initiated positive actions to implement the recommendations in areas of people with disabilities protection, HIV/TB treatment and prevention and domestic violence. However, many of other recommendations are put on hold as the current *de-facto* leaders lack political will to address all human rights issues.

The Civil Rights Defenders Country Report 2015 underlines that the prison system in Transnistria is in a critical situation. Water in the prisons is unsanitary and contributes to disease and poor dental health among prisoners. There is also no access to qualified medical care, while a high rate of the prison population has tuberculosis and HIV/AIDS and dental problems. Transnistria counts for about one-third of the total number of HIV/AIDS cases and HIV/AIDS-related

deaths reported to date by the Republic of Moldova, including civil and penitentiary environments. Almost half of all HIV/AIDS cases are indicative of late diagnosis and delayed access to care.

Victims of domestic violence from Transnistria are unable to access protection measures as there is no law to regulate these issues and only CSOs act as service providers in this area. In October 2013, CSOs from Transnistria participated for the first time in the shadow reporting in Geneva on CEDAW. The Action Plan on the implementation of Hammarberg's recommendations provides for establishment of a safe-place for women. In 2016, a "shelter" is to be developed in Tiraspol as a social centre for women in crisis but not as a shelter for domestic violence victims.

Human rights abuses are reported as systematically taking place behind the walls of the institutions where people with disabilities (including disabled children) are treated. The *de-facto* authorities undertook unilateral commitments towards the UN Convention on the Rights of Persons with Disabilities. In September 2015, the UN Special Rapporteur on the Rights of Persons with Disabilities signalled a need for complex reform, including legal capacity reform, deinstitutionalisation and inclusive education. In 2015, the Accessibility Evaluation Committee in the Bender municipality was established and persons with disabilities participated in the local construction authorisation processes to develop, implement and monitor accessibility standards.

Freedom of expression and association is tightly controlled and independent voices against the regime are suppressed<sup>81</sup>. According to the Freedom House Report 2015<sup>82</sup>, the media environment in Transnistria is restrictive. Nearly all media are state owned or controlled and refrain from criticising the authorities. The right to association is also limited in Transnistria with civil society associations and groups of activities being monitored by the secret services

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80 [http://hudoc.echr.coe.int/eng?i=001-61886&utm\\_source=www.russianpulse.ru&utm\\_medium=link&utm\\_campaign=article#{%22itemid%22:\[%22001-61886%22\]}](http://hudoc.echr.coe.int/eng?i=001-61886&utm_source=www.russianpulse.ru&utm_medium=link&utm_campaign=article#{%22itemid%22:[%22001-61886%22]})

81 <http://www.civilrightsdefenders.org/country-reports/human-rights-in-moldova/>

82 <https://freedomhouse.org/report/freedom-world/2015/transnistria>

of the region. In 2014, the “Supreme Soviet” launched a draft law on “foreign agents” that specifically targeted CSOs working on election monitoring and receiving funding from abroad. The draft “law” was adopted in the first plenary reading and in February 2016 it was subject to public hearings in the “Supreme Soviet”.

The situation of the Chisinau-administered *Latin Script Schools* in Transnistria remains a serious issue for concern. No comprehensive solution for ensuring the proper functioning of these schools could be found in spite of the efforts of Chisinau authorities and international partners in this regard.

In respect of the human right to access to safe potable water, health care, protected environment and better living conditions, the population on both banks of Nistru is exposed to substantial environmental threats due to its density in combination with the ailing state of the local sewer networks and the scarcity of resources for their maintenance. This is exacerbated by the deplorable technical conditions of the waste water treatment plants from which a significant proportion of untreated sewage flows into the Nistru river system. Multiple infrastructure-related connections between the two banks were already destroyed, while others are obsolete and require serious investments. Due to the political situation, there is almost complete lack of necessary inter-municipal cooperation, based on which these infrastructural units are supposed to be managed.

### Civil Society

Support to CSOs in Transnistria is primarily offered under the CBM activities, through 1) grants programmes oriented to building partnerships, 2) joint capacity-building activities, and 3) direct support by certain donors. In Transnistria there is little support from the de-facto authorities for the development of CSOs. If such support is in place, it is likely that CSOs are affiliated to the de-facto authorities, their activity is oriented to or supported by Russia as a donor, or their target audience are vulnerable groups, such as people with disabilities, for which the de-facto authorities offer little

support. The CSOs work, particularly in the human rights area, trade, and entrepreneurship development, is subject to surveillance, control and checks by the local intelligence. This creates major obstacles for such CSOs to carry out their activity in a fully-fledged manner, not to mention the moral pressure they are subjected to, sometimes fuelled by threats (particularly for human rights activists). Since November 2014, the “Supreme Soviet” has had under consideration a draft “bill” on non-governmental organisations in which CSOs are proposed to be considered “foreign agents” should they activate with the financial support of foreign governments (the draft law is inspired by the similar law in Russia). In February 2016 there were public hearings with regard to the bill, generating both cautious criticism and support.

CBM policy implemented to support civil society on both banks and help them build partnerships has a number of successful case studies. However, CBM requires joint capacity-building and grant sharing obligatorily with a right-bank partner, which to a great extent has created a norm, but at the same time alienated left-bank CSOs that often feel strongly about the lack of donors’ direct funding, as well as about right-bank partners keeping control over the awarded funding. Restrictions on years of experience often imposed by donors are yet another obstacle for the international community to ensure valuable contribution to the development of a competent civil society in Transnistria. The practice introduced in 2012-2013 by the EU-funded and UNDP co-funded and implemented SCBM Programme, that involved joint capacity building and grant awarding for implementation to partnerships of CSOs from both banks, has increased the availability of funding to left-bank NGOs, and has also engaged them in unprecedented partnerships with right-bank organisations, providing also opportunities to gain experience. Consideration could be given to providing direct support and competence-building training for the left-bank CSOs from a wider array of areas, including IT, innovation, educational and cultural support, and the environment in order to give them space to generate confidence and genuine will to seek partnerships with right-bank CSOs.

## Trade and Economic Development

The EU is a crucial export market for Transnistria, whose trade with the EU MSs amounts currently to 60% of Transnistria's total export. Transnistria benefitted from extended autonomous trade preferences until 31 December 2015. Despite the leadership's initial reluctance to engage in DCFTA negotiations between EU and Moldova, in early 2015 that changed, not least due to the developments in the neighbouring Ukraine, which made economic operations and export quite difficult. As a result, the EU was instrumental in facilitating an agreement by which DCFTA's application was extended to Transnistria. However, Tiraspol, despite geopolitically driven reluctance to implement the Association Agreement, made it clear they would only consider economic rapprochement for the sake of the Transnistrian export to the EU market. Tiraspol leadership has voiced out recently the commitment to implement gradually the necessary transitional measures (such as adopting a new Tax code, introduce VAT, comply with phytosanitary standards, certificates of goods origin and certificates of conformity, etc.) that would allow making valuable progress in this area. Lack of trust between Chisinau and Tiraspol is yet again a major obstacle in boosting Tiraspol's buy-in for the DCFTA implementation and understanding by businesses and population.

The overall regional dynamic, as well as the "tit-for-tat" approach adhered to by both Chisinau and Tiraspol, has had a negative effect on building the necessary conditions for finding mutually beneficial ways forward. Both sides carry responsibility for the past and current lack of cooperation. The number of issues of contention and friction between Tiraspol and Chisinau continue to increase. Especially the issue of criminal cases pending against Transnistrian individuals and the proposed establishment of the joint Moldova-Ukraine border control on the Transnistrian segment of the common border are cited by the Transnistrian side as the main stumbling blocks towards the resumption of the 5+2 process. On the other hand, Chisinau declares its readiness to resume the 5+2 negotiations without preconditions, but also without taking

sufficient steps towards finding a compromise solution to some of the underlying issues invoked by Tiraspol.

However, in spite of a negative internal dynamic with an ever increasing number of problematic areas and changes to the previously existing arrangements introduced by both sides, the international environment appears to be more favourable to resuscitating the 5+2 dialogue than before. Russia has allowed an arrangement enabling Transnistria to maintain preferential access to the EU market, thus preventing further economic deterioration in Transnistria, even if it may draw Transnistria in time economically closer to the EU. In the medium term, support (technical assistance) to Transnistria focuses on transitioning to a VAT system and fulfilling other requirements to facilitate the trade and exports by Transnistrian economic operators under DCFTA rules:

- Revitalise the 5+2 dialogue without pre-conditions from any of the sides;
- Enhance the status of the EU as observer in the 5+2 format; Revival of regular 1+1 meetings on substantive discussion of pending issues;
- 'Presidential elections' in Tiraspol and direct presidential elections in Moldova are due in the autumn of 2016 which may create a new window of opportunity for dialogue between Chisinau and Tiraspol either in the economic (trade) area or political context, or both;
- Continue to monitor the human rights situation on the left bank of the Nistru river and address any violations in an enhanced dialogue with Tiraspol on this issue;
- Ensure the free movement of persons and goods across the internal boundary line;
- Continue to implement CBMs initiatives in order to facilitate the future reintegration of Moldova;
- Support the activities of CSOs and media on both banks of Nistru river;
- Consolidation of the institutional and inter-institutional capacity/dialogue of relevant Chisinau authorities aiming to generate institutional support and efficient cooperation in finding solutions to critical matters with regard to the Transnistrian settlement process.

### 13.2 Strengths/opportunities/ critical bottlenecks

Politicisation of economic, social and educational matters by both sides, particularly by Tiraspol, presents a major difficulty when progressing in any of these areas as part of the settlement and confidence-building process. Further, centralised control over and, therefore politicisation of confidence-building activities by Tiraspol creates disincentives to participating in joint activities with representatives of the right bank (for businesses, chambers of commerce, civil society organisations and, in particular, officials/ “MPs”). Surveillance of civil society and censorship to any public activities are being rigorously applied.

Therefore, the resumption of 5+2 format talks on all of the three “baskets” from the negotiation agreement (including

basket III – security and political issues) remains critical. The engagement of the sides in the political discussions in the 5+2 format will give a strong boost to the settlement of pending technical issues as well as to the development of new CBM initiatives.

### 13.3 Cross-cutting issues

*Gender equality and women empowerment* is an important element of CBM programmes. For example, the EU-funded CBM III and CBM IV require 40% of newly employed staff in a new business to be women, or 20-30% of trained entrepreneurs to be women. In Transnistria, the majority of CSOs particularly in social and human rights areas are led by women. Both men and women benefit from opportunities offered under CBM programmes.

### 13.4 Key Challenges to be addressed within 2017–2020 period and beyond

The greatest challenge to development in Transnistria is the resistance of Tiraspol de-facto authorities in subscribing to the political association (EU Moldova Association Agreement) and to the economic integration (DCFTA) that the Republic of Moldova attempts to reach with the EU under ratified agreements. Politicisation and centralised control over CBM projects and, particularly, joint activities are other related challenges.

The short to medium term challenge is to make Moldova attractive to Tiraspol. For this, the reform process under AA and DCFTA should focus on delivering expected and announced (as well as tangible) results. Actual results delivered in the reform process will eventually generate more technical assistance and budget support from the EU. In turn, this should be accompanied by incentive for the Chisinau authorities to share (albeit cautiously) with Transnistria particularly in the area of DCFTA implementation and Tiraspol's transition and reforms to this end. European donors need to consider ways to facilitate dialogue and agreement between Chisinau and Tiraspol to their mutual benefit in trade and economic development.

Another short to mid-term challenge is the growing disparity between Transnistria and the rest of the country, compounded by a likely continued drop in macroeconomic indicators, impending financial crisis as the local currency faces hyperinflationary pressure, and political instability. Moreover, people living in Transnistria (most of whom are Moldova's citizens) cannot benefit to the same extent as their right-bank counterparts from the opportunities provided by the AA and the development assistance offered to Moldova, due to administrative obstacles and the unsettled status issues. In this context, the EU and international development partners of Moldova should step up efforts to integrate more Transnistrian residents and companies in their programming, as well as to design specific interventions aimed to reduce the development gap.

In the context of civil society development, the EU and international donors should consider diversifying channels of support to Transnistrian CSOs through competence and capacity-building training oriented to behavioural change and to narrowing the gap of perceptions and mentalities between the two banks of river Nistru. One mid-term challenge is the further politicisation of CSOs and businesses' work by the de-facto authorities and imposed controls and permissions. In terms of CSOs and Transnistrian opinion-makers, the challenge is an insufficient information and communication policy about existing opportunities. It may be worth considering widening the local stakeholders mapping and, where possible, apply more flexible approaches to "young" organisations as beneficiaries.

From the perspective of a Transnistrian settlement, the immediate and foreseeable mid-term challenges are the limited political will and back-up for the Deputy Prime Minister (DPM) for Reintegration in exercising own mandate as negotiator, as well as the lack of developed inter-institutional strategic vision of a political settlement for the Transnistrian conflict. The DPM as well as the Bureau for Reintegration should be properly empowered: the DPM with actual decision-making and coordinating power, whilst the Bureau requires competence building and better resourcing.

The EU enhanced participation in the resumption of 5+2 talks and in its discussions afterwards remains critical. A comprehensive strategy which will provide increased EU support for developing the necessary capacities of Moldova's institutions dealing with reintegration as well as for launching new bold CBM initiatives needs to be put in place. In the medium term, the EU should be ready to actively engage, both politically and financially, if and when a breakthrough in the settlement process might occur.

Additional challenges in the short and medium term are the lack of a comprehensive communication policy on behalf of the Chisinau authorities with regard to the country's reintegration and reaching out to residents on the left bank too. The longer there is no communication policy, the higher the chances that the gap between the two banks will further widen and even deepen in the mid to long term, which will cause a big challenge for both sides and for donors in addressing CBM and sustainable partnerships.

# Legal Policy Framework and List of relevant stakeholders for the sectors/sub-sectors

## Chapter 1: Democratic Governance and Public Administration

### *Stakeholders*

- Government of Moldova
- Parliament of Moldova
- Constitutional Court
- Superior Council of Magistracy
- Supreme Court of Justice
- National Anti-Corruption Centre
- National Integrity Commission
- Court of Accounts
- General Public Prosecutor
- Ombudsman
- National Participation Council / Civil Society Forum

### *Policy Frameworks in place*

- Constitution
- Law 797/1996 on functioning of the Parliament of Moldova
- Government Decree 857/2013 on the National Strategy *Moldova Digital 2020*
- National Programme on modernisation of Public Sector Delivery
- Law 64/1990 on Government
- Law 239/2008 on transparency of decision making process
- Law 261/2008 on Court of Accounts
- Law 317/2003 on normative acts from Government and local authorities
- Law 793/2000 on administrative justice
- Law 982/2000 on access to information
- Law 780/2001 on legal acts
- Law 90/2008 on prevention and fight against corruption
- Law 16/2008 on conflict of interest
- Law 294/2007 on political parties



## Chapter 2: Financial Sector and Economic Governance

### *Stakeholders*

#### **Public Finance Management:**

- Ministry of Finance (Tax, Customs, Public Procurement Agency, Complaint Settlement Agency for public procurement)
- Court of Accounts
- Ministry of Economy (Public Property Agency)
- The Financial Inspection is in the process of being restructured.
- Budgetary Committee for Economy, Budget and Finance

#### **Financial Services:**

- National Commission for Financial stability
- National Bank of Moldova
- National Commission for Financial Markets
- Financial Investigation Unit of the National Anti-Corruption Centre for anti-money laundering

### *Policy Framework in place*

#### **Public Financial Management:**

- Law on Public Finance and Fiscal Accountability (LPFFA)
- Law on Law on Public Internal Financial Control (2010, amendments 2014 and 2014)
- Constitution (1994)
- Law on the Court of Accounts 2008)
- Law on Procurement (2007)
- A new Law on Procurement (2015) adopted and in effect from 1 May 2016
- Law on PPP (2008)
- Law on Concessions (1995)
- Strategy for the development of Public Financial Management for 2013-20
- Specific strategies (often not fully coordinated) for different stakeholders as for example the PIFC Strategy 2014-17

#### **Financial Services:**

- The Law on the National Bank of Moldova (LNBM) 548-XIII of the 21st of July 1995 with subsequent amendments (15th of August 2014, and 21st of August 2015).
- Law on the National Commission on the financial market (from November 12, 1998 of 192-XIV) with amendments.
- Government Decree 449 on the 2nd of June 2010 establishing the National Commission for Financial Stability. Law 129-XVI of the 7th of June, 2007 on Amending and Completion of Law 192-XIV of the 12th November, 1998 establishing the National Commission for Financial stability.
- Law on Financial Institutions (550-XIII of the 21st of July 1995)
- Law 575-XV of the 26th of December 2003 establishing the Deposit Guarantee Fund
- Law on Joint Stock Companies
- National Strategy to combat money laundering and financing of terrorism
- Law on Capital Markets (from July 11, 2012 of 171) with amendments

## Chapter 3: Economic Development

### Stakeholders

Standing Committee on Economy, Budget and Finance - structure of the Parliament

Ministry of Economy with subordinated several agencies:

- Moldova's Investment and Export Promotion Organization (MIEPO)
- The Organization for SME Development (ODIMM)
- The Consumer Protection Agency (CPA)
- The National Institute of Metrology (INM)
- The National Institute of Standardization (INS)
- The State Agency on Intellectual Propriety (AGEPI)

Ministry of Finance with two revenue authorities in its structure:

- The State Tax Service (STS)
- The Customs Service (CS)

Ministry of Agriculture and Food Industry (MAFI) and its agencies:

- The National Food Safety Agency (ANSA)
- The Agency for Interventions and Payments in Agriculture (AIPA)

Competition Council

Confederation of Employers

Confederation of Trade Unions

Chamber of Commerce and Industry

Association of Light Industry (APIUS)

Associations of Farmers, the Association of Apple Producers

Business Associations

The European Business Association

American Chamber of Commerce

Think tanks

Expert Group

IDIS Viitorul

NGOs in the area of consumer protection

## Chapter 4: Local Governance

### Stakeholders

At the national Level:

- The Parliament examines the legislative framework in force and approves legislative acts necessary for the implementation of the decentralization process and strengthening the local autonomy; exerts parliamentary control over accomplishment of the present Strategy, observance and fulfilment of in force legislative provisions concerning the decentralization process and strengthening of local autonomy.
- The Government has established, under the Chair of the Prime Minister, the Parity Committee for Decentralization, consisting of first and second level CPA and LPA representatives, Autonomous Territorial Unit (ATU) of Gagauzia representative, representative of civil society, designated by the National Participation Council.
- The State Chancellery, through its Division for Decentralization Policies, monitors the implementation of the Strategy and Plan of action, according to the objectives, priorities and stages of decentralization process. The Division for Decentralization Policies under the State Chancellery will work in close cooperation with CPA authorities, which manages the liable domains of decentralization, especially with the Ministry of Finance, LPAs and with their representative associations, civil society representatives, of scientific and academic environment, private sector, partners for development etc.
- National Coordination Council on Regional Development<sup>83</sup>, is responsible for the inter-ministerial coordination and approval regulatory framework for the implementation of the National Strategy for Regional Development and the National Regional Development Fund including the approval of individual projects financed through the fund.
- Ministry of Regional Development and Construction is responsible for the functioning of its RDAs and for the overall management of the National Fund for Regional Development,
- The Regional Development Councils are responsible for the strategy of the promotion and coordination of the regional development policy at the local level and for general development of the regions.
- Line ministries are responsible for sector policies, strategies and regulatory frameworks which are largely implemented at sub-national level.
- National Authority for CBC & TNC Programmes (Strategic Planning and Foreign Aid Department, State Chancellery)<sup>84</sup>.
- Congress of Local Authorities of the Republic of Moldova (CALM) represents the Moldova's local authorities, also towards the Council of Europe. The Union of District Councils (UCRM) is a local stakeholder, too.

At the Sub-National Level:

- National Assembly and Executive Committee of ATU Gagauzia
- Regional Development Councils (North, Centre, South, Gagauzia), composed of representatives of 25% of each, LPAs 1<sup>st</sup> and 2<sup>nd</sup> level, private sector and NGOs.
- Regional Development Agencies (North, Centre, South, Gagauzia)
- Chisinau municipal authorities
- Local public administrations
- Potential applicants for CBC & TNC Programmes 2014-2020 include the public sector, the private sector, civil society organisations and as final beneficiaries the citizens of Moldova.

<sup>83</sup> State Chancellery, Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Ministry of Transport, Ministry of Environment, Ministry of Regional Development and Construction, three Presidents of the Regional Development Councils, three representatives of the private sector of the development regions, one national representative of a civil society organisation.

<sup>84</sup> Office for Cross Border Programmes, National Working Group for Programming: experts from relevant central public authorities involved in the programming process (State Chancellery, Ministry of Regional Development and Construction, Ministry of Foreign Affairs, Ministry of Finance, Financial Inspection, State Treasury, Court of Accounts, Ministry of Economy, Ministry of Environment, Ministry of Transport and Road Infrastructure) and Joint Programming Committee (Moldova's delegation): experts from relevant central public authorities participating in the meetings of the Joint Programming Committees for each particular programme (JOP RO-MD, JOP BSB, TCP Danube, EaPTC Programme MD-UA).

## Legal Framework in place

- Ensuring sustainable and inclusive socio-economic, regional development and cross-border and transnational cooperation is an integral part of the AA/DCFTA between EU and Rep. of Moldova<sup>85</sup>.
- Law 166 (11.07.2012) on the approval of the National Development Strategy 'Moldova 2020'
- Law 68 (05.04.2012) on the approval of the National Decentralization Strategy and the Action Plan on the Implementation of the National Decentralization Strategy for years 2012-2015
- Law on Land Ownership Regime, State Land Cadastre and Land Monitoring 1247 from 22.12.1992
- Law on Urban and Spatial Planning, 835 from 17.05.1996
- European Charter of Local Self Government ratified by the Parliament of Moldova, 1253-XIII of 07.16.1997
- Law on Real Estate Cadastre, 1543 from 25.02.1998
- Law on the Public Property of Administrative-Territorial Units, 523, last changed 15.07.2010
- Law on Green Urban and Rural Areas, 591 from 09.23.1999
- Law on the Locally Elected Officials, 768 from 02.02.2000
- Law on Administrative Division of Republic of Moldova, 764 of 27.12.2001
- Law on Local Public Finance 397 from 16.10.2003, amended and completed in 2014
- Law on Approving of the Framework Regulation on the Establishment and Operation of Local and Rayon Councils, 457 from 14.11.2003
- Law on Administrative Decentralization, 435 from 28.12.2006
- Law on Local Public Administration, 436 from 28.12.2006
- Law on Regional Development in Moldova, 438 from 28.12.2006
- Law on Public Procurement, 96 from 13.04.2007
- Law on Electronic Communications, 241 from 15.11.2007
- Law on Public Property Management and Privatization, 121 from 04.05.2007
- Law on Public Function and Status of Civil Servants, 158-XVI from 04.07.2008
- Law on Transparency in Decisions, 239 from 13.11.2008
- Law on the Approval of a Single Classification of Public Functions, 155 from 21.07.2011
- Law on Civil Service Pay System, 48 of 22.03.2012
- GD 1451 from 24.12.2007 - on the Structure and Staff of Mayoralities of Villages (Communes), Towns (Municipalities)
- GD 1451 from 24.12.2007 for Approving of the Regulations on the Assignment, Change of Destination and Exchange of Land, 1451 from 24.12.2007
- Strategy for Development of the Civil Society in the Republic of Moldova for 2012-2015 (no implementation report and no update available)
- GD 608 from 05.07.2010 for the implementation of certain provisions of Law 435-XVI of 28 December 2006 on Administrative Decentralization
- GD 797 from 26.10.2012 regarding the approval of the Reform of Public Services for 2012-2015
- GD 122 from 02.18.2014 on Public Services Reform Program for 2014-2016, 122 from 02.18.2014
- GD 549 from 09.07.2014 on amending and supplementing the Municipal Enterprise Model
- National Strategy for Regional Development (NSRD) for the period 2013-2015.
- Sectorial environmental strategy 2014-2023 considers decentralization of services in water and sanitation, waste management and natural resources management, approved by GD 301 from 24.04.2014

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<sup>85</sup> In particular, Title IV, Chapter 20 on Regional Development, Cross-Border and Regional Level Cooperation, Articles 107-112 of the Association Agreement encourages the parties to ensure: "mutual understanding, and bi-lateral cooperation in the field of regional policy, including methods of formulation and implementation of regional policies, multi-level governance and partnership, with special emphasis on the development of disadvantaged areas and territorial cooperation, with the objective of establishing channels of communication and enhancing exchange of information and experience between national, regional and local authorities, socio-economic actors and civil society".

## General Policy Framework

- The Regional Development Strategies (RDSs) 2016-2020 of the three development regions (RD regions North, Centre and South) out of 6 regional development regions have been developed by the RDAs, approved by the RDCs and are under implementation. They replace the strategies 2010-2016.

The Government invests through the National Fund for Regional Development 1% of state budget for the implementation of the NSRD and RDSs.

- The National Decentralization Strategy 2012-2015 undergoes implementation.
- The Republic of Moldova participates since 1996 in the EU Cross Border Cooperation Programmes (CBC) with Member States, and which are co-financed on the EU side by the EC Neighbourhood Policy Instrument (ENI) and the European Regional Development Fund (ERDF) (namely Neighbourhood Programme Romania-Moldova and Neighbourhood Programme CEDSES). From 2016 Moldova will also participate in the Transnational Programme for the Danube Region, together with 9 Member States and a number of other third countries.

Regulatory acts (Government Decision and relevant by-laws) for setting up a regulatory and institutional framework for a shared management system for CBC Programmes in accordance with CE Regulation on common rules for CBC ENI Programs are drafted. Currently, these documents passed the administrative procedures and adoption by parliament is pending.

- The Republic of Moldova is a full participant in the EU macro-regional Strategy for the Danube Region and is joint coordinator for the Priority Area 9 "People and Skills", together with Austria. Through this participation Moldova has the possibility of profiting from an exchange of experience and best practice with regions in the 9 participating Member States on a range of sectoral issues.

## Chapter 5: Justice and Home Affairs

### *Stakeholders Mapping and Sector Coordination Structures*

Stakeholders range across all three branches of Government: the legislature, executive, and judiciary, as well as civil society.

In the field of justice, Parliament has direct involvement through the definition of the legal framework, the work of its Committees, and through the appointment and supervision of the Prosecutor General and the People Advocate (Ombudsman).

The Superior Council of Magistrates (SCM) and the President of the Supreme Court of Justice perform oversight of the judiciary. Appeals, and District Courts, are administratively supported by the Department of Judicial Administration (DCA), currently under the Ministry of Justice (MoJ). Prosecutors operate under a Superior Council of Prosecutors (SCP). Investigation is conducted by the Ministry of Internal Affairs (MoIA) as well as, at the moment, the Prosecutor General's Office (PGO), as well as other agencies including notably the National Anti-corruption Centre (NACC) and the National Integrity Commission. Advocates are represented by a Bar Association (Union of Advocates), bailiffs by the Union of Judicial Executors and notaries by a Union of Notaries and a National League of notaries. MoJ also runs the penitentiary system and the probation service (through the Central Probation Office and district offices), as well as coordinates approximation of legislation through the Centre for Legal Approximation. Forensic science institutions are run by MoJ, MoI and MoH.

In the field of law enforcement, the Ministry of Internal Affairs is responsible for designing the policy, whereas the Inspectorate of the police is involved in directly managing the police. Law enforcement is conducted by the Police forces and the Carabineer forces..

In the field of migration and border management, the main players are the Bureau of Migration and Asylum, the Border Police and the Bureau of Relation with Diaspora. The State Enterprise Registry, depending from the Ministry of Information Technologies and Communications plays a significant role, being in charge of issuing and managing passports for Moldova's citizens.

In the field of Security, the Ministry of Defence, the Security and Intelligence Services (SIS and the Army should be added to an already long list of actors.

### **Sector Coordination**

The legal sector as a whole is fragmented and affected by a lack of communication between actors and interagency cooperation.

The Ministry of Justice organises twice a year a group of coordination with donors and the civil society. Donors' coordination groups are also in place in the field of law enforcement, professional training of judges and prosecutors).

In the field of security, however, there is, at the governmental level, a Supreme Security Council (CSS) presided by the President of the Republic and comprising, among others, the President of the Parliament, the Prime Minister, the Ministers of economy, foreign affairs, finance, interior, defence, the directors of the SIS, of the NACC, the prosecutor general, and others.

Coordination in the medium term might get traction in building on reform processes in the judiciary and of law enforcement in the 2017-2020 period and beyond. Moldova's Government recognizes the importance of fighting against corruption in the judiciary as an integral part of its development strategy in Moldova 2020. However, real reforms are slow.

Increasingly, the EU and like-minded donors should also focus more on measures to help civil society and human rights defenders.

## Chapter 6: Social Protection and Health

### *Policy Frameworks and Institutional Arrangements*

#### **Social protection AA related**

Political dialogue and reform Equal opportunities, Continuous adjustments of legal and normative acts to the UN Convention on the Rights of Persons with Disabilities:

- Draft of the Government decision on set of indicators for monitoring of the implementation of UN convention on persons with disabilities.
- The National Action Plan on social inclusion of persons with disabilities is in the process of elaboration
- The National Action Plan on deinstitutionalization of persons with disabilities is in the process of elaboration.
- The 2009–2016 Strategy of the National Referral System for Assistance and Protection of Victims and Potential Victims of Trafficking (NRS) was adopted by the Parliament in December 2008 and the assessment on the level of NRS' implementation and integration into the social protection system is expected to be conducted in 2017. The outcome of such evaluation will serve as basis for the MoLSPF for designing further measures to be adopted in order to ensure protection (including social protection) to victims of trafficking, also in compliance with art.14 (d) of the AA.

Implement the National Program on Ensuring Gender Equality for 2010-2015 and ensure the monitoring of the Action Plan regarding its implementation:

- The Action plan expired in 2015. The MoLSPF is in the process of elaborating a new Action Plan.
- Political dialogue and reform Equal opportunities:
- Draft law on accession to the European Council Convention on combating violence against women and domestic violence, established in Istanbul on 11 May 2011.

Economic cooperation, employment, social policies and equal opportunities, Political Dialogue and Reform Children's rights:

- Enhance the level of social protection and ensure the efficiency and financial sustainability of social protection systems.
- Draft law on regulatory frame of the organization and functioning of the social assistance and child protection units.
- Develop, approve and implement the National Action Plan for implementing the first phase of the National Strategy for Child Protection for the years 2014-2020.
- Draft on the government decision on approval of the Action Plan on implementation of the Strategy of Child Protection 2014-2020 (for public consultations) is to be presented to Government approval in May.

#### **Health**

The key legal framework governing the health sector of the Republic of Moldova:

- Law 411 of 28 March 1995 on health;
- Law 1456 of 25 May 1993 on pharmaceutical activity;
- Law 1585 of 27 February 1998 on mandatory health insurance;
- Law 10 of 3 February 2009 on state surveillance of public health;
- Law 552 of 18 October 2001 on evaluation and accreditation in health;
- Law 264 of 27 October 2005 on exercise of medical profession;
- Law 263 of 27 December 2005 on patient's rights and responsibilities;
- Law 382 of 6 May 1999 on circulation of drugs, psychotropic substances and precursors;
- Law 713 of 6 December 2001 on control and prevention of alcohol abuse, illicit consumption of drugs and other psychotropic substances;



- Law 42 of 6 March 2008 on transplant of human organs, tissues and cells;
- Law 1402 of 16 December 1997 on mental health;
- Law 982 of 11 May 2000 on access to information;
- Law 96 of 13 May 2007 on public acquisitions;
- Law 190 of 19 July 1994 on complaints;
- Law 185 of 24 May 2001 on protection of reproductive health and family planning;
- Law 23 of 16 March 2007 on prevention of HIV/AIDS infection;
- Law 93 of 5 April 2007 on the Service for Civil Protection and Exceptional Situations.

List of relevant health sector policies currently in force:

- the National Health Policy for 2007-2021;
- the Health sector development strategy for 2008-2017;
- the Strategy on development of human resources in health in 2016-2025;
- the National Strategy for prevention and control of non-communicable diseases in 2012-2020;
- the National Programme for prevention and control of cardiovascular diseases in 2014-2020;
- the National Programme on feeding and nutrition in 2014-2020;
- the National Strategy for public health in 2014-2020;
- the State Programme for development and equipment of the service for state surveillance of public health in 2011-2016;
- the National Programme on blood security and self-sufficiency in blood products in 2012-2016;
- the National Programme for combatting viral hepatitis B, C and D in 2012-2016;
- the National Programme for alcohol control in 2012-2020;
- the National Programme for tobacco control in 2012-2016;
- the National Programme on mental health in 2012-2016;
- the National Programme on transplantation in 2012-2016;
- the National Programme on prevention and reduction of child mortality and morbidity from congenital malformations and heredity diseases in 2013-2017.

List of draft health sector policies available for public discussions:

- the Health Code;
- the Hospitals Master Plan;
- the Strategy on health, development and wellbeing of children and adolescents in 2015-2020;
- the Strategy on management of medical devices in 2015-2020;
- the Strategy on eHealth 2020;
- the National Programme for cancer control in 2016-2025;
- the National Programme for development of emergency care in 2016-2020;
- the National Programme on health promotion in 2016-2020;
- the National Programme on prevention and control of HIV/AIDS and STIs in 2016-2020;
- the National Programme on control of Tuberculosis in 2016-2020;
- the National Programme on the implementation of the Protocol on Water and Health in the Republic of Moldova in 2016-2025;
- the Strategy on the health system adapting to climate changes.

The institution that formulates policies and regulatory documents for the social protection sector is the Ministry of Labour, Social Protection and Family (MMPSF).

The subordinated institutions are:

- National Insurance House
- National Employment Agency
- State Labour Inspectorate
- Social Inspection, Republican Fund for Population
- National Council for Accreditation of Social Services
- National Council for Disability Evaluation and Work Capacity
- Social services providers, 16 units

Though the ministry is increasing the number of the institutions, these are mainly covering supervision and control functions. There exists little data for evidence-based policy generation, little or no capacity to analyse such data and translate it into evidence-based policy where it does exist, and many of the relevant institutions are new. Currently, the local public administration has both policy and implementation functions. Along with decentralization process, developing and promoting social services are functions transferred to the local level. The Rayon Councils, the Social Assistance Directions at rayon level, and the social assistance units at community levels participate in this process.

There are many other actors interacting with the sector, such as CSOs (international organization and donors), and NGOs. Some of these organizations represent vulnerable groups (associations), others are social services providers, while some represent international organizations and provide specific technical assistance. The most active is the council of NGOs working in the area of child protection and social inclusion of people with disabilities.

The main international organizations and donors are: EU and bilateral support of EU countries, World Bank and UN Agencies. In 2010 the external support social sector coordination council was created.

Several thematic inter-sectoral coordination bodies have been established but have proved non- functional; a priority (also stipulated in the AA) is re-establishment of the National Council for Protection of Child Rights.

## Health

The Ministry of Health (MoH) represents the central authority responsible for developing health policies, drafting the legislation related to organization and provision of health services, as well as for inter-sectorial collaboration on health issues. MoH sets the priorities of the health sector, allocates funds in line with these priorities, develops and coordinates targeted interventions of public health importance, including through specific national programmes. MoH also defines the package of health services delivered to the population and their costing. Through its network of public health centres, MoH ensures health protection and promotion, sanitary surveillance, an adequate level of preparedness, and response to public health emergencies. It is worth mentioning that MoH runs a network of tertiary in-patient care institutions, which provides the highest level of care to the most complicated cases referred from the entire country. Additionally, MoH supervises a number of national institutions with relevant functions for the health sector, which will be further described in more detail. Among current challenges faced by MoH, additional issues include scarce human resources, high staff turnover, overburden of staff with patient's complaints to the prejudice of policy development, and a lack of funds.

The National Health Insurance Company (NHIC) is a public agency sub-ordinated to the Government and is the key stakeholder in health financing responsible for funds pooling and contracting of accredited health providers. In addition to these important tasks, NHIC is expected to play an important role in quality improvement of health services. However, this

mission is seemingly confined to checking the adherence of provided health services to clinical protocols and guidelines. Neither performance-based payments/bonuses for highly performing health providers are implemented, nor are regular patients' satisfaction surveys conducted by NHIC. Additionally, the Government plans to strengthen its role by appointing the NHIC Director Executive independently, without a prior selection organized by the NHIC Administrative Council – this fact might diminish NHIC independence, making it more sensitive to the political influence of MoH.

The National Council for Evaluation and Accreditation in Health (NCEAH) is a public entity sub-ordinated to the Government and has the role to ensure that all active health and pharmaceutical facilities are fully compliant with a set of specific evaluation and accreditation standards. Each facility applying for NCEAH certificate is carefully evaluated in terms of conformity to current norms and regulations related to management, infrastructure, medical devices, human resources, patient's rights, data management, quality of care, waste management, etc. As a result, it is expected that NCEAH will filter the weak facilities, so that each accredited institution provides a set of quality health services that are effective, safe and in line with patient's needs. However, it seems that currently NCEAH is not yet prepared to take the responsibility for removing poor institutions, in particular in the public sector. Therefore, most probably, NCEAH will continue rather keeping the status quo than contributing to quality improvement agenda.

The Medicines and Medical Devices Agency (MMDA) is a public entity subordinated to MoH, which should ensure access to quality, safe, effective and affordable medicines and medical devices. In this regard, MMDA develops and implements various policies related to medicines and medical devices, including authorization, quality control, and regulation of activity in these areas, monitoring and coordination of supply at national level, and data collection. MMDA has an important role in setting the medicines price, which represents a politically sensitive area, because 80% of OOP on health are spent on medicines. Taking into consideration the recent depreciation of local currency and the fact that over 81% of consumed medicines are imported (6), it is rather unlikely that MMDA may contribute to making medicines more affordable to the general population. Additionally, some recent stories in the media raised serious questions regarding the efficient use of public finances for medicines procurement. It is expected that the forthcoming EU-funded Twinning project will strengthen MMDA capacities to cope with the above-mentioned challenges, as well as to transpose into the national legislation the provisions of the *acquis* listed under Article 173 of the Association Agreement and its Annex XVI.

The National Centre of Health Management (NCHM) is a public institution sub-ordinated to MoH, with relevant functions, including collection, standardization and analysis of health data, development of health information systems, research for health system development, development of health care standards and norms, quality management, analysis and planning of human resources. Due to the wide spectrum of responsibilities, NCHM is supposed to be the key actor in health sector development, reform and quality improvement. However, current lack of capacities and staff outflow hinder NCHM from reaching its potential and meeting expectations.

The National Centre of Public Health (NCPH) is a public institution sub-ordinated to MoH and is placed at the top of the network of 37 public health centres located in each district and the municipalities of Chisinau and Balti. NCPH ensures overall coordination and provides methodological support in public health protection and promotion, sanitary surveillance, preparedness and response to public health emergencies. Its role is described in more details within the public health sub-sector (see Chapter 4: sub-sector analysis).

Due to specific donors' support, civil society is more developed in the areas of prevention and control of TB, HIV/AIDS, as well as in mother and child health. With few exceptions, professional associations are rather undeveloped and/or less active. There are several organizations promoting patients' rights, most of them representing people with chronic and rare diseases.

International development partners are represented by a number of multi- and bilateral agencies, including WHO, EU, World Bank, UNDP, UNFPA, UNICEF, UNAIDS, UNODC, IOM, SDC, GIZ, JICA, ADA, most of them being part of the Health Sector Council (HSC).

### **Parliament**

In accordance with the Constitution of the Republic of Moldova (Art. 36), the Parliament is responsible for setting the structure of the national health system and the means for protecting physical and mental health of people. The Parliament's Commission for Social Protection, Health and Family plays an important role in examination, drafting and promotion of legal and policy documents related to health. Additionally, the Parliament regulates the health budget by approving the annual Law on State Budget and the Law on Mandatory Health Insurance Funds. Therefore, periods of political instability may obstruct the Parliament's activity and, consequently, affect the health system's functioning and postpone health reforms.

### **Local Public Administration**

Local Public Authorities (LPA) are important stakeholders who own public hospitals and primary health care facilities located at district and municipal levels. However, formal health units responsible for overall management of health issues at local level were established only within LPA in Chisinau, Balti and Gagauz-Yeri. Unfortunately, the decentralization process is rather long and awkward, with lack of clarity on competences transferred to the LPA. As a result, LPAs miss a set of effective legal and financial leverages to develop and implement an integrated model of health care, which would be individually tailored to their population. Technical inefficiencies because of service overlapping represent another challenge, in particular in Chisinau, where secondary and tertiary hospitals are located and contribute to duplication of in-patient care.

## Chapter 7: Employment & Education

### *Policy Framework in place*

#### **Employment**

- National Employment Strategy 2016-2020 and its Action Plan (to be approved by 2017)
- Law 131 of June 2012 on State Control over Entrepreneurship Activities and law on labour inspection
- Wages Law 847-XV of 14.01. 2002 and Labour Code 154-XV of 28.03.2003
- Law on Employment and Social Protection of Persons Seeking Work 102 of 13.03.2003
- Law on Labour Migration 180 of 10.07.2008
- National Action Plan for the reduction of the informal (grey) economy approved by Government Decision 477 of 28.06.2011
- Bilateral agreements on labour force migration (signed with: The Russian Federation – 1993, Ukraine – 1994, Belarus – 1994, Azerbaijan – 2005, Italy – 2011, Israel – 2012)
- The Decent Work Country Programme (ILO) 2012-2015, 2016-2020

#### **Education**

- Education Code 152 of 17.07.2014
- Education Development Strategy „Education 2020” for the period 2014-2020
- Strategy of Development of Technical and Vocational Education and Training (VET) for the period 2013-2020
- Programme for the development of Inclusive Education in the Republic of Moldova for the period 2011-2020 and associated Action Plan for the period 2015-2017
- Sector strategy for Expenditures in Education, 2015-2017; 2016 - 2018
- National Action Plan for the Implementation of Structural Reform in Education
- Action Plan for Restructuring the Network of Vocational Education Providers for the period 2015-2020

## Chapter 8: Culture & Media

### *Stakeholders Mapping and Sector Coordination Structures*

The field of culture includes a wide diversity of actors both on the national and the local level. Coordination of the sector as a whole is very weak.

The Ministry of Culture is overseeing the policy and directly contributes to the financing of the sector by subsidizing the functioning of cultural State institutions (19 theatres and concert halls, national museums, libraries) or through tenders. The artists are represented by various unions inherited from the soviet area, which sometimes represent elements of conservatism. The associative sector (KSA: K, Oberliht) is dynamic but lacks capacities and resources and is not organised. Cultural heritage is overseen by an Agency for Inspection and Restoration of Monuments (AIRM) and by a National Agency of Archaeology. Local authorities, in particular municipalities, own most of the cultural networks (libraries, "casa de cultura") and have a crucial role to play in the protection of cultural heritage, being responsible for the elaboration of urban plans. The media and audio-visual sector is supervised by the CCA (audio-visual coordination council) and by the AGEPI, as far as copyrights are concerned. Local civil society organisations are the main actors pushing for freer and fairer media environment.

A donor coordination group has been established under the leadership of the Ministry of culture only recently in 2015, with active participation of some member States. Apart from donor countries, some civil society organisations like the Soros Foundation and Bill and Melinda Gates foundation also play a major role in the sector. Virtually all European Embassies have an activity in the field of culture. In 2015 a EUNIC cluster was launched, comprising for the moment the Romanian Cultural Institute, Alliance française, Goethe Institute, Polish Institute and the Cervantes Institute.

## Chapter 9: Civil Society

### Stakeholders

The Department of Policy and Foreign Aid Coordination and Central Public Administration Reform in the State Chancellery is in charge of civil society policy coordination. High staff turnovers, lack of human and financial resources impede their active coordination from the government's side of the civil society sector.

Civil society participation in decision-making at central level has increased due to the creation of the National Participation Council (NPC) at the initiative of the Government as an advisory body in December 2009. The mandate of the NPC expired at the end of 2014 and, due to the election period, several changes in the government and long-term political instability; it has been inactive since 2015. This experience evidenced that the functioning of the NPC depends heavily on the political will of the government in place.

The NGO Council, the National Representative body of the CSOs, has a comparable mandate to the NPC but focuses on the monitoring of Parliament's activities and the implementation of the NSCSD 2012-2015, based on the cooperation agreement between both bodies of December 2005. They experience similar barriers as the NPC to effective monitoring, lobbying and advocating. Several thematic alliances actively monitor for the interests of their constituencies in their field, such as the Anti-corruption Alliance, the Pro-Europe Platform, the Anti-Discrimination Coalition, the Alliance of Active NGOs in Social Protection of Child and Family, the Alliance of Organisations for people with disabilities, the National Youth Council and the recently established Gender Equality Platform. Several Ministries, such as the Ministry of Environment, rely on the expertise of civil society organisations for their policy formulation and regularly organise consultations.

Discussions were recently initiated to decide how to develop a more efficient mechanism of cooperation between the Government, Parliament and CSOs. A proposal is to have one mechanism of collaboration with the Government and Parliament, which would ensure a follow-up of the entire policy decision-making process from start to finish.

The National Eastern European Partnership Civil Society Platform was established in 2011 under a regional EU-funded project implemented by the Moldova's NGO REC. It experienced challenges in finding its place and distinct mandate between the existing CSO alliances in Moldova. Its mission overlaps with the EU-Moldova civil society platform stipulated in the AA.

National Commission for consultations and collective bargaining is an institution of social dialogue at national level. The Commission was established as a result of the adoption of Law 245 of July 21, 2006. These commissions existed even until the adoption of the mentioned Law.

The National Commission for consultations and collective bargaining is an autonomous tripartite public body of the social partnership which is created to resolve issues related to labour and socio-economic problems, to develop social partnership at national level. It is composed of Government representatives, national level employer organisations and national level trade union confederations.

The National Commission has an advisory role in developing socio-economic strategies and policies in settlement of conflict situations between the social partners at national level.

## Chapter 10: Environment and Climate Change

### Stakeholders

List of Stakeholders: Government, State Chancellery, MoEnv and its subordinated Agencies, Ministry of Regional Development and Construction (MRDC), Ministry of Agriculture, Ministry of Health, National Energy Regulatory Agency (NARE), Local Public Administrations (LPAs) of rayon and community level, NGOs (including AMAC and CALM) and citizens.

Stakeholders mapping and Sector Coordination structures in place:

MoEnv and its subordinated Agencies; Ministry of Regional Development and Construction; Ministry of Health; Ministry of Agriculture; Ministry of Economy; Sector Coordination Council; WSS Donors meeting; LPAs; AMAC; CALM.

Stakeholders mapping: MoEnv acts as the competent authority for climate policy in Moldova. On the technical level the Ministry is supported by Project offices (EPPO, POPs, Ozone, Biodiversity, etc.), including the Climate Change Office. Other stakeholders are: The National Commission for the implementation and realization of the commitments under the UNFCCC and of the mechanisms and commitments of the Kyoto Protocol, Ministry of Economy, Ministry of Agriculture and Food Industry, Ministry of Regional Development and Construction, Agency Moldsilva, Agency Apele Moldovei, Energy Efficiency Agency, Institute of Ecology and Geography; State Hydro-meteorological Service, others.

CPESS is the key decision maker in the subsector. There are multiple inspectorates, including the Ecological Inspectorate, the State Inspectorate for Technical Supervision of Industrial Hazardous Objects, as well as health, and labour inspectors.

### Policy and Legal Framework in place

The waste management policy is based on the National Waste Management Strategy (NWMS) 2013-2027, but the existing legal framework regulating the subsector is mostly outdated and inadequate. It includes the following laws:

- Law on environment protection (1515-XII of 16.06 1993);
- Law on the ecological survey and estimation of impact on the environment (851-XIII of 29.05.1996);
- Law on natural resources (1102-XIII of 06.2.1997); Law on the charges for environment pollution (1540-XIII of 25.02.1998); Law on production and household waste (1347-XIII of 09.10. 1997);
- Law on the regime of hazardous products and substances (1236-XIII of 03.07. 1997) and the Law on ratification of the Stockholm Convention on Persistent Organic Pollutants (40-XV of 19.02.2004).

The draft law on Waste has passed first reading in the parliament; the draft regulations on landfills and on the main waste streams (packaging, WEEE, batteries and accumulators) are elaborated. In relation to the National Environmental Fund, the Government Decision (GD) 1296 of 20.11.2008 on the procedure of charging environmental payments for import of goods in the process of use and causing environmental pollution.

The policy framework for water and environmental sanitation:

- The National WSS Strategy for 2014-2028; The Water Law, 272 as of 23.12.2011;
- The Law of Water Supply and Sewerage Public Services, 303 as of 13.12.2013 and also the Laws on Drinking Water (1999); Public Communal Services (2002); State Control over Public Health (2009) Local Public Administration (2006).
- The Law on Environmental Impact Assessment 86 as of 29.05.2014; GoM Decision 250 is in force as of 03.04.2014.

The list of legal documents under development includes: Draft Law on Public Access to Environmental Information; Draft Law on Strategic Environmental Assessment; Draft Law on drinking water quality; Draft governmental regulation on public participation in environmental matters.



## Chapter 11: Energy and Transport

### *Legal and Policy Framework*

The current legal and policy framework regulating the energy sector includes:

- The 1998 Energy Law
- The 2009 Law on Natural Gas, as amended in 2014
- The 2009 Electricity Law, as amended in 2014
- The 2010 Law on Energy Efficiency
- The 2012 Government Decision on the Energy Efficiency Fund
- The 2013 Government Decision of the adoption of the Energy Efficiency Action Plan 2013-2015
- The 2013 “Energy Security Strategy 2030” of the Republic of Moldova
- The 2014 Law on labelling of products with an energy impact
- The 2014 Law on energy performance of buildings
- The 2014 Law on thermal energy and promotion of cogeneration
- The 2014 Law on ecological design requirements applicable to products with an energy impact
- The 2014 Government Decision on the approval of regulations of labelling of certain energy impact products
- The 2015 Government Decision on the 2015 Energy Balance of Moldova
- The 2016 new Natural Gas Law
- The 2016 new Electricity Law
- The 2016 Law on the Promotion of Energy from Renewable Sources, to enter into force within 1 year from the date of adoption.
- The 2016 Government Decision approving the new draft Energy Law
- The Legislative plan for transposition of the provisions of the EU-Moldova Association Agreement, 9 July 2015, Parliament of the Republic of Moldova
- The 2030 Energy Strategy of Moldova, 2013
- The National Renewable Energy Action Plan (NREAP), 2013
- The National Energy Efficiency Action Plan (NEEAP), 2013-2015
- The Draft National Energy Efficiency Action Plan (NEEAP), 2016-2018
- The new draft Law on Natural Gas
- The new draft Law on Electricity

The current legal and policy framework regulating the **transport sector** includes:

- The 1997 Law on Transport
- The 1995 Law on Roads
- The 2014 Law on Road Transport Code
- The 1996 Law on Road Fund
- The 1997 Law on Civil Aviation
- The National Programme for Facilitation of Air Transport
- The 2007 Law on Aviation Security
- The 1999 Law on Commercial Maritime Navigation Code
- The 2003 Law on Rail Transport Code
- The 2015 Government Decision on the approval of Regulation for air transport statistics for passengers, goods and mail

- The 2016 Government Decision on calculation and approval methodology of airport and air navigation fees
- The Regulation of the Public Institution “Giurgilesti Harbour”
- The Legislative plan for transposition of the provisions of the EU-Moldova Association Agreement, 9 July 2015, Parliament of the Republic of Moldova
- The National Transport and Logistics Strategy 2013-2022
- The Land Transport Infrastructure Strategy 2008-2017
- The National Strategy for Road Safety

## Chapter 12: Agriculture, Food Safety and Rural Development

### Stakeholders

#### Public Administration

- Ministry of Agriculture and Food Industry (MAFI) - the central government authority responsible for the development and promotion of policies for sustainable development of the agro-food sector and rural areas
- Agency for Interventions and Payments in Agriculture (AIPA) - responsible for managing the financial resources to support farmers, including support for rural infrastructure related to agricultural activities; subordinated to MAFI
- National Food Safety Agency (ANSA) - responsible for policies in the spheres of food safety, veterinary, animal husbandry, plant protection and plant quarantine, seed control, quality of primary products and animal feed; subordinated to the Government of the RM
- National Wine and Vine Office (ONVV) - responsible for implementing wine policies, providing financial support for the development of the wine sector
- Agricultural Information Centre (AIC) - implementation of the Strategic Program for technological modernization of governance – e-Transformation

#### Other Public Administration Bodies

- Ministry of Regional Development and Construction (regional development fund, measures to ensure cohesion and reduce disparities in the regions)
- Ministry of Environment (measures to protect the environment, rural areas)
- State Chancellery (European and other donor's funds coordinator)
- Ministry of Economy (policies and programs to support rural development, ODIMM - Small and Medium size enterprises policies)
- Ministry of Education (agricultural education, training of rural specialists)
- Ministry of Labour, Social Protection and Family (promotion of employment and reduction of unemployment in rural areas, provision of incentives for young professionals living in rural areas)
- Regional Development Agencies (subordinated to Min. of Reg. Dev. and Cons.)
- Social Investment Fund of Moldova (overcoming poverty)

#### Public and Private stakeholders

- Farmers
- Farmers' Associations
- Farmers' Producer Groups
- Local Administrative Bodies
- Civil Society Organizations
- Think-tanks

#### Policy Framework in place

- Overriding strategy adopted by the Government of Moldova is the National Development Strategy "Moldova 2020". The Strategy aims at the acceleration of the economic growth and reduction of poverty in the Republic of Moldova.
- The main strategy in field of agriculture is the "National Strategy on Agriculture and Rural Development 2014-2020", which is targeted at: increasing competitiveness of the agro-food sector; ensuring sustainable management of natural resources in agriculture; and improving standards of living in rural areas.

Other important strategies which may influence the development of the sector include:

- Strategy for the development of rural extension services for the period 2012-2022
- Small and Medium Enterprises' Sector Development Strategy for the years 2012–2020
- Strategy for Domestic Trade Development in the Republic of Moldova for the years 2014-2020
- Energy Strategy of the Republic of Moldova up to the year 2030
- Transport and Logistics Development Strategy for the years 2013-2022
- Information Society Development Strategy "Digital Moldova 2020"
- Tourism Development Strategy" Tourism 2020"
- Water Supply and Sanitation (WSS) Strategy for 2014-2028
- Environmental Strategy for 2014-2023
- National Waste Management Strategy for 2013-2027.

## Chapter 13: Transnistria

### *National stakeholders*

- Bureau for Reintegration, including through the Programme of activities in support of reintegration, a CBM -oriented tool, funded from the state budget since 2010, offering infrastructural support to local public authorities and social/ educational establishments in the Security Zone. The support is offered through CBM projects selected by an inter-institutional board (Bureau for Reintegration, Ministry of Economy, and Ministry of Finance);
- Ministry of Economy, its role is key in ensuring and facilitating the implementation of DCFTA on the entire territory of Moldova (including Transnistria);
- Line ministries, including MFAEI, Ministry of Interior, Ministry of Social Protection, Ministry of Finance, Ministry of Health, etc.
- General Prosecutor's Office;
- The Parliament of Moldova and political parties;
- Regional development agencies (for technical infrastructure investment initiatives);
- Central and local de-facto administrations in Transnistria;
- Civil society organizations, think-tanks, media, business associations.

### *International stakeholders*

- OSCE Mission to Moldova, mediator in the 5+2 format. It also offers support in CBMs including civil society development, human rights and democracy support programme, gender equality, conflict prevention;
- The US, as observer in the 5+2 talks;
- World Bank, support in the field of social services development, data collection and statistics, fiduciary functions, communities' support;
- The EU and EU member states, including, but not limited to UK, Germany, Sweden, Romania, Austria, Czech Republic providing support in areas like water resources protection, building water infrastructure, democratic participation in civil society development, conflict prevention;
- Switzerland through the Swiss Agency for Development Cooperation – (SDC);
- US through United States Agency for International Development (USAID);
- International organizations, including UNDP, UNFPA, UNICEF, IOM, UNAIDS, Council of Europe, acting as implementing agencies for the EU-funded CBM programmes and EU MSs- funded CBM projects oriented to developing business, civil society, social matters, including health (HIV/AIDS, human rights, including fight against human trafficking, protection of victims, including of domestic violence, etc.), gender equality, energy and environment, trade and border control.

### *Legal and policy framework governing and/or concerning Transnistria*

- Constitution of the Republic of Moldova, Art. 110 p. 2)
- Law no. 173-XVI as of 22 July 2005 concerning the basic provisions of the special legal status of the localities situation on the left bank of river Nistru (Transnistria)
- National Strategy of Regional Development 2013-2015 establishing 6 development regions including the Development Region Transnistria.
- Draft Strategy of Integration of National Minorities of Moldova 2015-2020, HCOHR. Phase I Action Plan 2015-2017 and Phase II Action Plan 2018 - 2020

- Customs Code of the Republic of Moldova no. 1149-XIV of 20 July 2000, particularly Art. Art. 97<sup>1</sup>, 97<sup>2</sup>, 97<sup>3</sup> and 97<sup>4</sup> amended by the Law no. 71 as of 12.04.2015 with regard to the establishment, operation and licensing of duty-free shops on the territory that is temporarily not controlled by the constitutional authorities. (Note: the amendments are *pending abrogation*)
- *Draft* Law on amending the Law on State Goods Nomenclature in order to introduce a 1% drawback [tax] to allow Transnistrian economic agents to export end products produced from raw materials purchased prior to 1 January 2016, to third countries, including in the EU (Note: *the draft law is in the pipeline*)
- Decree of the Government of the Republic of Moldova No. 1001/2001 that allows TN companies to avoid double taxation.
- EU-Republic of Moldova Association Agreement and Deep and Comprehensive Free-trade Agreement (DCFTA)
- EU-Moldova Visa Liberalisation Agreement
- Memorandum of Understanding between the European Commission and the Governments of Moldova and Ukraine from 2005 on establishing the European Union Border Advisory Mission (EUBAM)
- Joint Declaration signed by the Prime Ministers of Moldova and Ukraine, setting in place the customs agreement on the central segment of Moldova-Ukraine border, which enforcement started as of March 2006.
- UN Senior Expert Thomas Hammarberg's report on Human Rights in the Transnistrian region of the Republic of Moldova

## Executive Summary of the Baseline Study on Gender Equality

(funded by Sweden)

### *Legal framework for gender parity and parity institutions*

The legal framework for equality between women and men is fairly well developed, from the 1994 Constitution of the Republic of Moldova to a number of more recent laws, including: the 2005 law on combating and preventing human trafficking, the 2006 law on ensuring equal opportunities for men and women, the 2007 law on combating and preventing domestic violence and the 2012 law on ensuring equal opportunities that institutes a Council on the Prevention and Elimination of Discrimination and Ensuring Equality that disciplines gender-based discrimination cases. Since 2010, sexual harassment is forbidden by the Labour code and it is penalized by the Criminal Code. In 2016, the Legislative Package 180 adopted by the Parliament amended 15 laws<sup>86</sup> in order to strengthen gender equality, especially by (i) mandating equal participation in local and national elections by means of a 40 percent minimum gender quota in the lists of candidates, a minimum 40 percent gender quota in Government and a 40 percent gender quota for political parties' leadership positions; (ii) by introducing a publicly funded 14 days paternal leave; (iii) by banning and penalizing sexist advertisement; and (iv) by strengthening the institutional framework for gender equality through the clarification of the role of central and local authorities on gender equality and the creation of coordination councils on gender equality in each ministry. At the international level, the Republic of Moldova acceded to the UN Convention on the Elimination of All Forms of Discriminations Against Women (CEDAW) and signed the CEDAW Optional Protocol.

The gender equality policy framework had little effect on women and men's lives. Since 1996, the Republic of Moldova has defined its gender policy by way of national gender policy programmes and national action plans, which have had a modest implementation. Gender mainstreaming is very weakly present in public policies. Whilst official data is being progressively disaggregated, authorities do not, as a rule, evaluate the impact of their policies on gender equality<sup>87</sup>. There appears to be only a limited political will to promote gender equality reforms. In addition, only minimal state public resources are budgeted for gender equality objectives under the most recent National Action Plans. Instead, in this sector the Government relies heavily on donors' support.

The gender equality institutional framework is fragile. The gender equality machinery includes (a) the *Governmental Committee on Equality* between women and men that has the mandate to coordinate all gender equality policies within the ministries; (b) the *Department for Gender Equality and Prevention of Violence Policy of the Ministry of Labour, Social Protection and Family*, which develops gender equality policies; and (c) the *Gender Focal Points*, whose mandate is to monitor the compliance with legislation and policies for gender equality. However, the operation of such an institutional framework is limited: The Governmental Committee meets infrequently and the issues discussed do not always align with its mandate. The machinery's capacity to formulate policies is low, as most of the expertise comes from external consultants. There is little accountability for the implementation of gender equality measures. There is no link between the relevant policies devised and the budgetary framework.

<sup>86</sup> <http://parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/2285/language/ro-RO/Default.aspx>

<sup>87</sup> How public policies integrate gender quality? Case studies from 2013-2014 [http://progen.md/files/7374\\_analiza\\_politici\\_2014.pdf](http://progen.md/files/7374_analiza_politici_2014.pdf)

## ***Representation of women and men in politics***

Women's representation is improving at the local level and it is also expected to improve slightly in the future due to recent legislative changes. In the 2014 parliamentary elections, women won 21.8 percent of the seats in the Parliament of the Republic of Moldova, well below the critical mass of 30 percent that the researchers identify as the standard minimum that effectively allows women to exert enough influence over the promulgation of gender-sensitive laws<sup>88</sup>. However, women's representation at local councillor level is 30 percent and 20.6 percent of the mayors are women (an increase over the levels reached in the previous local elections). Other positive examples include: one of the two deputy-speakers of the Parliament and the women that lead two out of the five parliamentary factions. Women from special groups, such as Roma women<sup>89</sup> or women with disabilities are virtually excluded from representation in public life. Within the political parties, there is a strong resistance towards a greater women's political participation. The financing of the electoral campaigns remains one of the major obstacles for equal women's participation in politics. The Legislative Package 180 adopted in 2016 will hopefully provide greater opportunities for women in politics. However, it must be noted that mandating a 40 percent gender quota on party lists without also specifically assigning a position on the candidate's list may not necessarily favour a gender-balanced election.

## ***Women and men in the labour market and entrepreneurship***

Labour gender gaps are widening. Women and men's participation in the labour force is low, respectively 38.6 and 44.1 percent<sup>90</sup> and the employment gap is probably higher given the high levels of informal work and emigration that affect both women and men, although the latter are affected to a higher extent.

In 2010, there were 5 percent less working women than working men that had children of pre-school age, in 2014 that difference had soared to 15 percent. Although both genders adopt professional roles that are dictated by social norms, women also face significant horizontal and vertical segregations. Women are concentrated in a narrower range of sectors than men and are predominantly active in the public administration. They are overwhelmingly employed in the service sector, such as in hotels, restaurants and retail trade (59.7 percent), education, healthcare and social assistance (71.4 percent). Women are also underrepresented in the decision-making bodies of the private and civil society sectors. In Moldova's firms, including small and medium enterprises, women executive directors of private companies<sup>91</sup> are only 27 percent. Despite women's higher level of education, their gender pay gaps is still estimated at 12.8 percent, with significant peaks in the sectors of: finance (women earn 31 percent less than men), ICT (37 percent) and consulting (30 percent)<sup>92</sup>. The absence of child-care services prevents women from responding quickly to market opportunities, forcing them to stay out of the labour market<sup>93</sup>.

Women tend to create micro-enterprises or become individual entrepreneurs<sup>94</sup>. Nationwide, the share of women entrepreneurs is only 27.5 percent; yet, it is even, significantly lower in rural areas (14.9 percent). Women's increasing presence as entrepreneurs is seen as a positive alternative to unemployment; however, the range of their entrepreneurial activities remains limited. Not all programs financed by the state and by international development partners in support of

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88 Atlas of Electoral Gender Quotas, International Institute for Democracy and Electoral Assistance 2014

89 <http://www.unwomen.org/en/news/stories/2015/9/roma-women-elected-in-moldova>

90 International Labour Organization (ILO), Key Indicators of the Labour Market database, Labour force participation rate, female (percent of female population ages 15-64), 2014 data

91 Gender Equality Agenda, op.cit.

92 Moldova gender pay gap analysis [http://progen.md/files/4717\\_analiza\\_paygap\\_moldova.pdf](http://progen.md/files/4717_analiza_paygap_moldova.pdf)

93 Improving Economic Efficiency through integrating a gender perspective in Moldova's budgetary process

"Gender Responsible Budgeting", a case study of budget efficiency through gender analyses of the education budget, labour market programmes and the pension system, Catharina Schmitz, Eugenia Veverita, Alexander Sinchetru 2008

94 People registering as individual entrepreneurs can employ staff but they do not incorporate a separate legal entity with separate assets



SMEs specifically refer to women's entrepreneurship; also, there is a shortness of services specifically designed to support women entrepreneurs<sup>95</sup>. Women's entrepreneurial activity remains restricted by their substantial lack of access to finance due to the high interest rates on credits and their insufficiency of immovable assets and hence their limited possibility to offer guarantees. The agricultural sector is the main labour market for both women and men. Women make 36 percent of the total agricultural holders in the country but they manage only 19 percent of the land covered by agricultural holdings; many women work on land they do not own and are not formally registered, which often leaves them without social coverage and thus more exposed to poverty.

There are significant gender gaps in migration. While in 2010 64 percent of migrants were men<sup>96</sup>, large numbers of women were also emigrating: in 2004 there were 730.000 active women in the Republic of Moldova, 39 percent of the female population; ten years later, the active women were only 607.000, or 32 percent of the female population<sup>97</sup>. It is to be noted that between 60 and 80 percent of migrant women send remittances home to support their family in Moldova<sup>98</sup>, and that in 2014 remittances represented 24 percent of the average disposable income for female-headed Moldova's households, compared to 14 percent for male-headed households<sup>99</sup>.

### **Violence against women**

Violence against women is widespread, many victims lack adequate services. 63 percent of women in Moldova have experienced psychological, physical or sexual violence from their husband or partner and one in ten experienced economic abuse at least once<sup>100</sup>. Rural, elderly and separated or divorced women suffer the highest rates of multiple types of violence. Women that are not economically independent are more exposed to violence. Law No 45-XVI of 2007 on Preventing and Combating Domestic Violence is an important legislative base to redress this situation; also, the 2010-2015 National Action Plan recognises that violence against women is a nation-wide social problem: unfortunately, however, the plan is not fully implemented. The centres for women survivors of domestic violence provide specialized support but lack financial resources; they also have an underdeveloped referral system, have insufficient backing by the police and cannot provide many special services that would be needed. For society, the costs of domestic violence are very high and therefore civil society organisations suggest that the government should concentrate its efforts on preventing violence rather than countering its short and long-term effects. Some progress and achievements were made in removing and preventing violence against women, however much more remains to be done.<sup>101</sup>

### **Social protection**

Social protection and childcare policies contribute to gender equality. In the area of social insurance, maternity and childcare schemes offer six months of paid leave for mothers and a very limited allowance for the first three years of the child. In the Republic of Moldova, birth and fertility rate are low but, according to civil society, the welfare system does not motivate young families to have more children; furthermore, it discriminates women in the labour market, leads to considerable gender gaps in salaries and pensions and does not encourage women with children to re-enter the labour market, thus leading to a deterioration of their professional skills, and does not foster fathers' involvement in childcare.

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95 Gender Equality Agenda, op.cit.

96 Liza Yanovic, *Children Left Behind: The Impact of Labor Migration in Moldova and Ukraine*, Migration Policy Institute, January 23, 2015

97 Study report, women in power and decision-making op.cit.

98 Studies conducted in 2007-2010 by the "Registru" State Information Resources Center S.E., the Border Guard Service (currently the MIA Border Police) and the Eurostat database

99 Gender Analysis of the EU AA/DCFTAS with Georgia, Moldova and Ukraine. Final Report and Annex 2, Moldova, Andrea Spear, Nora Kokanova, Larysa Magduyk, Nina Dadalauri, Alexei Buzu, Linda Engvall, January 29, 2016 Indevelop AB (referred to as Indevelop)

100 *Violence against Women in the Family*, a study commissioned by the UN in the Republic of Moldova in 2011 and conducted by the National Bureau of Statistics, [http://www.statistica.md/public/files/publicatii\\_electronice/Violenta/Raport\\_violen\\_fem\\_eng.pdf](http://www.statistica.md/public/files/publicatii_electronice/Violenta/Raport_violen_fem_eng.pdf)

101 Cfr : <http://eca.unwomen.org/en/where-we-are/moldova/ending-violence-against-women>

Women and men benefit from the same pension scheme but women tend to receive lower pension amounts, due to their lower salaries and the way that childcare leave is counted towards the pension contribution period. The pension gender gap is on average 17 percent, up from 10 percent in 2011.

### **Gender-based stereotypes**

Stereotypes about traditional gender roles persist. Despite progress made in promoting gender equality during the past decade, the Republic of Moldova still remains a gender-stereotyped society that perpetuates traditional gender roles of women and men. For example, in 2010, 79 percent of Moldova's men and women thought that the responsibility of taking care of domestic work is the women's; in 2014, the proportion remained the same. Groups of vulnerable women such as Roma and women with disabilities or elderly women are victims of various forms of discrimination.

The media perpetuate gender stereotypes. Despite some improvement regarding women in politics<sup>102</sup> the persisting portrayal of gender-based stereotypes in the media contributes to cast and maintain women and men in set roles by perpetuating, in the minds of the audience, the aspects of a profoundly traditional society, often not conducive to the gender balance between sexes. Ensuring that women reach the highest decision-making levels in the media might foster more gender-sensitive content and programming. Some efforts were made by the private broadcasters that appointed more women than men to second tier decision-making posts, where, women cover 56 percent<sup>103</sup> of the positions. Also, the recently adopted Legislative Package 180 amends media laws, the audio-visual code and the laws on advertising, to prohibit the use of sexist language and advertising and applies a 40 percent gender quota to the Coordinating Council of Audio-visual. These amendments should bring forward positive changes to the audio-visual policies of the Republic of Moldova.

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<sup>102</sup> In 2006, 50 percent of men and women considered that men are better at politics than women, in 2014 the proportion of fell to 20 percent

<sup>103</sup> Study report, women in power and decision-making op.cit.



