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JOINT STAFF WORKING DOCUMENT

Association Implementation Report on the Republic of Moldova

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1. Summary

In line with the revised European Neighbourhood Policy, this report describes the state of play in implementation by the Republic of Moldova (hereinafter Moldova) of its commitments under the EU-Moldova Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA), since the last report on 11 September 2019 and ahead of the next meeting of the Association Council scheduled for October 2021.

In the reporting period, both presidential and early parliamentary elections took place. In the second round of the presidential elections on 15 November 2020, the former Prime Minister and opposition Party of Action and Solidarity (PAS) leader Maia Sandu won with 57.75% of the votes against incumbent president Igor Dodon. The election observation mission of the Organisation for Security and Co-operation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) concluded that voters had a choice between political alternatives and that fundamental freedoms were respected. OSCE/ODIHR, however, mentioned with concern the negative and polarising election campaign, and reiterated the lack of effective campaign finance oversight and legal remedies.

Between the two rounds of the presidential elections, the Democratic Party announced its withdrawal from the government coalition, leading to an exclusively Socialist Party-run government. On 23 December 2020, Prime Minister Ion Chicu tendered his resignation and, upon President Sandu's nomination, Foreign Minister Aureliu Ciocoi took office as interim Prime Minister on 31 December 2020. President Sandu was inaugurated on 24 December 2020.

The composition of Parliament changed throughout 2020, with a number of members of parliament (MPs) changing party affiliation or forming new political groupings. After several months of institutional deadlock, on 15 April 2020 the Constitutional Court ascertained the conditions for the dissolution of Parliament due to the failure to form a government within the legal timeline, allowing the President to set the date of early parliamentary elections on 11 July.

For the first time in Moldova's history, a pro-reform party won parliamentary majority, with PAS receiving 52.8% of the votes, winning 63 of the 101 seats in the Parliament. According to the preliminary findings and conclusions of the OSCE/ODIHR, elections were well administered, competitive and fundamental freedoms were largely respected. It noted also shortcomings, such as the lack of effective campaign finance oversight, political bias of news outlets, and raised questions about the impartiality of the Central Election Commission. The new Government, formed solely by the Party of Action and Solidarity and led by Prime Minister Natalia Gavrilița, received Parliament's endorsement on 6 August 2021 with 61 out of the 101 votes in the Parliament.

During the reporting period, reforms of the justice sector overall stagnated, but there was some progress with the adoption by Parliament of the new Strategy for Ensuring the Independence and Integrity of the Justice Sector 2021-2024 on 26 November 2020. After six years of proceedings in the investigation of the 2014 bank fraud, none of the major culprits are currently behind bars and the assets lost in the fraud have not been recovered. In 2020 and 2021, trials were repeatedly postponed, charges were dropped against shareholders in the affected banks, and convicted perpetrators were released from prison early.

In December 2020, a new, informal parliamentary majority consisting of deputies of the Party of Socialists, the Shor Party and independent deputies adopted a list of controversial laws in a hasty manner that did not respect parliamentary procedures. A number of those laws were challenged by the opposition in the Constitutional Court and some were subsequently cancelled or suspended. The Constitutional Court played a critical role in decisive political moments. This caused attacks on Court's independence from the then informal parliamentary majority, which was strongly criticised by the international partners¹.

The COVID-19 pandemic triggered extraordinary measures, including a state of emergency, and had a negative impact on the economy, leading to a 7% drop in GDP in 2020, a decrease of private consumption and a worsening fiscal situation. The EU remained the main trade partner of Moldova, despite the overall negative impact of the pandemic.

Moldova continued to benefit from EU macro-financial assistance (MFA). In addition to the structural reform conditions for disbursement set out in the Memorandum of Understanding, a letter was handed over to the Moldovan Prime Minister in February 2020 with eight short-term policy actions to inform the political assessment of the situation in the context of the 2017-2020 MFA programme (and ongoing budget support programmes)². Following the fulfilment of the relevant conditions, the second instalment of EUR 30 million of the 2017-2020 MFA programme was disbursed in July 2020. Nonetheless, the third instalment of EUR 40 million had to be cancelled as some of the conditions³ were not met within the MFA availability period. A new EUR 100 million emergency MFA programme in the context of the COVID-19 pandemic was approved by the Council and the European Parliament in August 2020 as part of a wider package to 10 enlargement and neighbourhood partners. The first disbursement of EUR 50 million was made on 25 November 2020, and, following significant progress made with respect to the fulfilment of the policy conditions, the Commission disbursed the second instalment of EUR 50 million in loans on 7 October 2021.

The EU continued to provide assistance to improve the quality of life of the people of Moldova. In the reporting period, more than EUR 127 million in grants from the EU were allocated to strengthen the response to the COVID-19 pandemic, improve the resilience of the healthcare system, and to support recovery. Furthermore, on 2 June 2021, the Commission announced an Economic Recovery Plan for Moldova, which will mobilise up to EUR 600 million over the next three years. This funding will promote investments that underpin a sustainable and inclusive recovery from the COVID-19 pandemic⁴. This support is also fully aligned with and should be implemented as part of the broader regional vision set out in the Joint Staff Working Document (JSWD) on the post-2020 Eastern Partnership, published on 2 July 2021, including its Economic Investment Plan and the five country flagships for Moldova, to support socio-economic recovery and strengthen the country's resilience.

¹ <https://www.venice.coe.int/webforms/events/?id=3137>

² These were: 1. Setting up an international joint investigation team to recover assets from the 2014 banking fraud; 2. Joining the OECD anti-corruption network Istanbul Anti-Corruption Action Plan and formally participating in the 'EU for Integrity' regional programme; 3. Adoption of the law on Anti-Money Laundering sanctions by Parliament; 4. Extending the moratorium on the Citizenship for Investment programme until the provisions on programme in the Law of Citizenship are repealed; 5. Launching consultations among political parties and other stakeholders to prepare a strategic concept on the necessary changes in the judicial sector; 6. Adopt at the second reading the draft law on non-commercial organisations; 7. Agreeing to launch independent peer reviews of the Audio-visual Council and the Competition Council; 8. Amending the law on the Superior Council of Magistracy in line with European standards, GRECO and Venice Commission recommendations.

³ Implementation of asset recovery strategy; Substantial progress on implementation of action plan for legal and functional unbundling of three system operators in gas sector; Adoption of a new Customs Code, in line with EU Customs Code; Primary and secondary legislation to strengthen the position of Superior Council of Magistracy.

⁴ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_2712

Moldovan citizens continued to benefit from visa-free travel to the EU and the Schengen Associated Countries. From 28 April 2014 until 31 December 2020, some 2 366 647 Moldovan citizens made almost 9 million trips to the Schengen area under the visa-free regime. The fourth report under the Visa Suspension Mechanism adopted on 4 August 2021 confirmed that Moldova continues to fulfil the visa liberalisation benchmarks. At the same time it also identified that further efforts were needed to address the issue of unfounded asylum applications, alignment of Moldova's visa policy with the EU lists of visa-required third countries as well as in the areas of financial fraud, anti-money laundering, the prevention and fight against corruption and organised crime.

Moldova is committed and actively contributes to the Eastern Partnership. Building on the '20 deliverables for 2020', the long-term objectives under the overarching goal of strengthening resilience outlined in the March 2020 Joint Communication on the Eastern Partnership future⁵ have guided the joint work aiming to achieve tangible results for people.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

The political landscape and the composition of the presidency, government and parliament in Moldova changed considerably in the reporting period.

The five-month **government** coalition between PAS/Platforma DA and Socialist Party was ended by the Socialist party in November 2019 after disagreements over the selection of the Prosecutor General. Following a successful motion of no confidence against the then Prime Minister Sandu's Government, Ion Chicu took office on 14 November 2019. In March 2020, the Socialist Party and the Democratic Party signed an official coalition agreement. A motion of no confidence in the Chicu Government in July 2020, tabled by PAS and the Dignity and Truth Platform Party, failed.

Between the two rounds of the presidential elections on 1 and 15 November 2020, the Democratic Party announced its withdrawal from the coalition, leading to an exclusively Socialist Party-run minority Government. Many political actors called for early parliamentary elections. Ahead of another motion of no confidence (tabled by PAS, Platforma DA, and the Democratic Party), PM Chicu tendered his resignation on 23 December 2020. On 31 December 2020, President Sandu nominated Foreign Minister Aureliu Ciocoi as acting Prime Minister.

In the second round of **presidential elections** on 15 November 2020, the PAS leader Maia Sandu defeated incumbent President Igor Dodon, supported by the Socialist Party, by a significant margin receiving 57.75% of the vote. The OSCE/ODIHR Election Observation Mission concluded that the presidential elections were well managed, voters had a genuine choice between political alternatives and the fundamental freedoms of assembly and expression continued to be respected. The election campaign, however, was characterised as negative and divisive, involving personal attacks and polarising, intolerant rhetoric. In its findings, OSCE/ODIHR reiterated its previous observations on the lack of effective campaign finance oversight and adequate legal remedies. OSCE/ODIHR also highlighted the allegations of undue influence on public officials and voters that continued throughout the campaign and the concerns over possible vote-buying and organised transportation of voters on Election Day.

⁵ https://ec.europa.eu/info/publications/joint-communication-eastern-partnership-policy-beyond-2020-reinforcing-resilience-eastern-partnership-delivers-all_en

Also the composition of **Parliament** changed considerably since early spring of 2020⁶. Parliament had limited activity in 2020 due to the pandemic-related state of emergency and challenges posed by working remotely. The 2020 autumn/winter session started on 1 September, but had only one plenary meeting on 10 September. In December 2020, after almost 3 months of inactivity and shortly before handing over the power to the newly elected President Sandu, Parliament adopted a number of laws in a hasty manner that did not respect parliamentary procedures. This was done with the votes of a new, informal parliamentary majority consisting of deputies of the Socialist Party, the Shor Party and independent deputies. In response, the opposition boycotted several Parliamentary sittings, while civil society considered these actions as representative of a degradation in governance and of institutional sabotage⁷. According to the civil society declaration, ‘the laws compromise the fight against corruption, undermine the public budget, endanger the relationship with the development partners and risk destabilising the macro-financial situation of the country’. A number of those laws were challenged by the opposition in the Constitutional Court and as a consequence some of them were subsequently cancelled or suspended⁸.

After several months of institutional deadlock, on 15 April 2020 the Constitutional Court ascertained the conditions for the dissolution of Parliament due to the failure to form a government within the legal timeline, allowing the President to set the date of **early parliamentary elections** on 11 July. For the first time in Moldova’s history, a pro-reform party won parliamentary majority, with PAS receiving 52.8% of the vote, gaining 63 of the 101 seats in the Parliament. According to the preliminary findings and conclusions of the OSCE/ODIHR, elections were well administered, competitive and fundamental freedoms were largely respected. It noted also shortcomings, such as the lack of effective campaign finance oversight, political bias of news outlets, and raised questions about the impartiality of the Central Election Commission. The new Government, formed solely by the Party of Action and Solidarity and led by Prime Minister Natalia Gavrilița, received Parliament’s endorsement on 6 August 2021 with 61 out of the 101 votes in the Parliament.

Many previous recommendations with regard to the reform of the **electoral process** have still not been addressed. In 2020, Parliament adopted several legal amendments dealing with problematic technical aspects of the electoral process. Parliament also voted in the first reading a draft law which aimed to substantially amend the Electoral Code. While this was a step forward in resolving outstanding issues, the proposal was elaborated without the required consultations and contained controversial provisions. Following critical reactions from the civil society organisations (CSOs), the opposition and international partners, the amendments to the Electoral Code were not adopted and an urgent opinion was requested from the Venice Commission and OSCE/ODIHR⁹. The legislative proposals were not examined further before the presidential and early parliamentary elections and remain with the Parliament.

Throughout late 2019 and early 2020, the Government made several attempts to bypass Parliament and adopt a range of measures, including some with budgetary implications, but the **Constitutional Court** declared these unconstitutional. In April 2020, the Court ruled as

⁶ 18 MPs left the Democratic Party: 14 MPs joined a newly formed political party ‘Pro Moldova’, 2 MPs went to fugitive Ilan Shor’s party and 2 MPs became formally independent. November 2020 saw further re-profiling in Parliament, with 5 ‘Pro Moldova’ MPs creating a new group called ‘Pentru Moldova’ (For Moldova), and the Shor Party parliamentary faction (8 MPs, not counting Ilan Shor) joining this new ‘Pentru Moldova’ formation.

⁷ <https://www.eap-csf.md/en/ro-declaratia-publica-a-platfomei-nationale-privind-degradarea-procesului-legislativ-si-actului-de-guvernare-in-republica-moldova/>

⁸ However, at least one of these laws (banking fraud state debt) was re-adopted by Parliament in April 2021 with neglect of CC argumentation.

⁹ <https://www.osce.org/files/f/documents/4/6/460774.pdf>

unconstitutional the law on measures to support businesses and the population in the crisis conditions. Chairman of the Constitutional Court, Vladimir Țurcanu, subsequently resigned and was replaced by Domnica Manole after it was revealed that he discussed ongoing proceedings with President Igor Dodon. In May 2020, the approval of a USD 200 million loan from the Russian Federation was also found unconstitutional by the Court. During the reporting period, the Constitutional Court played a critical role in decisive political moments, most importantly when it allowed for the dissolution of Parliament on 15 April 2021. This sparked a backlash from the de facto parliamentary majority, who in response tried to remove the Chairwoman of the Constitutional Court from office in breach of constitutional provisions, an action that was strongly criticised by the international partners¹⁰.

Moldova's ranking on the 2021 World Press Freedom Index improved by two places (89th among 180 countries) but remained low due to concentration of **media** ownership, monopolisation of the advertising market, lack of editorial independence and control of media institutions by economic and political groups, barriers to access to information, as well as attacks on and intimidation of journalists, among other reasons. Addressing a 2018 cartel complaint on the advertisement market, the Competition Council found in October 2020 no indication of such a cartel, but it established that Casa Media (an advertising agency formerly linked with the fugitive oligarch Vladimir Plahotniuc) had abused its dominant position on the advertising market. In response, the Competition Council issued an unprecedented fine of MDL 1.85 million (approx. EUR 83 000). Following allegations of mismanagement and political influence, three members of the Audio-Visual Council resigned in 2019. The selection of the new members by Parliament in July 2020 drew criticism from the opposition and civil society.

A peer review of the Audio-Visual Council is pending. On 16 December 2020, Parliament amended the Code of Audio-visual Services, lifting the limitation on broadcasting military and political content from countries which have not ratified the European Convention on Transfrontier Television (including Russia). Other controversial changes, such as limitation of local content requirements and restricting the confidentiality of sources, were not adopted.

Public administration reform saw some progress as regards salary management and policy coordination by the State Chancellery. However, the institutional setup of the public administration is still in need of major reform. Moldova continued prudent fiscal management and disciplined budgetary planning in spite of the difficult circumstances during the pandemic. The Government remains committed to the implementation of the **Public Finance Management (PFM) Strategy** (2013-2020), which has been extended till end 2022. The pace of reforms has slowed down, inter alia, due to frequent changes in the Government and the increasing pressure on financial resources brought about by the COVID-19 pandemic. Nevertheless, the authorities have made progress on PFM reforms. Among the key achievements for 2019 and 2020 is the increasing accuracy of revenue projections by the Ministry of Finance. The Ministry has continued to improve the medium-term budgetary framework process, and improved the regulatory framework for financial management and internal control. Further improvements are needed in a number of areas, including adherence to the budget calendar, public investment planning and execution, accounting standards, public internal control and audit, governance of state-owned enterprises, public procurement and e-procurement. The preparation and implementation of a new PFM strategy needs to be carried out following a Public Expenditure and Financial Accountability (PEFA) assessment.

¹⁰ <https://www.venice.coe.int/webforms/events/?id=3137>

The Parliamentary Public Finance Control Committee became fully functional in December 2019, leading to better parliamentary oversight over the Court of Accounts. In December 2020, the Court of Accounts adopted its 2021-2025 development strategy and hearings on the Court's annual audit report took place on 15 December. With the support of an ongoing EU project, the Court further developed its financial auditing capacity, and improved its cooperation with the law enforcement bodies, especially on handling suspected fraud cases. However, the Court faced challenges related to its institutional independence, and there was no significant progress on internal audit in the public sector.

A package of laws¹¹ on the **Autonomous Territorial Unit (ATU) of Gagauz-Yeri**, which contribute to the harmonisation of national legislation in accordance with the provisions of the Constitution, Moldovan legislation and the Law on the special legal status of the Gagauz-Yeri ATU, was adopted by Parliament on 16 December 2020. Two of three implementing laws on the autonomous status of Gagauzia - pending since 2016 - were finally adopted by Parliament in December 2020, however, for these to become effective, further amendments to the Law on the special status of Gagauzia would need to be adopted.

Civil society organisations continued to call for increased **transparency in decision-making** in Parliament and other public authorities, reiterating their proposals submitted in 2016-2017 regarding the legislative framework on access to information. So far, these proposals have not led to any results.

Cooperation between public authorities and **civil society** remained sporadic and largely not institutionalised, despite an existing Strategy and Action Plan for Civil Society Development for 2018-2020. Parliament adopted the long-pending law on non-commercial organisations on 11 June 2020, one of the conditions for disbursement of the second tranche of the 2017-2020 EU macro-financial assistance. Among other things, the law simplifies the registration procedure and eliminates the registration fee. The amount allocated to CSOs through the 2% income tax designation mechanism decreased by 17% in 2020, partly due to the COVID-19 pandemic and the 2018 tax reform.

There were improvements on **local governance** through the consolidation of the fiscal transfer system and the financial autonomy of the local authorities as part of the 2020 state budget. A multi-party technical commission was established on 28 July 2020 under the Prime Minister with the objective of proposing a territorial amalgamation option based on wider consultations, but there is no clear timeline for the adoption and implementation of this major reform. On 9 April 2021, the law on LEADER local action groups was voted in Parliament, describing the procedure for their registration and operation, and allowing them to become legal entities that can receive funds from rural development LEADER measures.

The Ombudsman's Report on the Observance of Human Rights and Freedoms in the Republic of Moldova in 2020¹² concluded on lack of positive changes in the observance of **human rights** in 2020, while actions announced by the authorities failed to deliver improvements. Key problems were identified in relation to the right to access healthcare, to access information of public interest, the rights to work and decent life, freedom of movement, and freedom of expression. The National Human Rights Council, responsible for monitoring the implementation of the 2018-2022 National Human Rights Action Plan, held its first meeting in September 2020. The Law on the functioning of languages in Moldova, restoring the status

¹¹ The laws regulate: entry and exit of localities in the Gagauzia territory, establishing of a special level for Gagauzia in the local governance system (currently it has second level equal to regions); prohibition for Parliament to amend the Law on special status of Gagauzia without consent of Comrat.

¹² <http://ombudsman.md/wp-content/uploads/2021/04/Raport-2020-FINAL-RED.pdf>

of Russian as a language of interethnic communication, was adopted, but was contested by the opposition at the Constitutional Court and later declared unconstitutional.

Legislation to increase the capacities of the National Council for Preventing and Eliminating Discrimination and Ensuring Equality is still pending adoption by Parliament. The Council registered an increase in the number of complaints on non-observance of human rights (2 623 in 2019 compared to 2 010 in 2018), most of which relate to gender discrimination. In 2020, the European Court of Human Rights found Moldova in breach of the European Convention on Human Rights in 32 cases.¹³

The Ombudsman's office published a critical report¹⁴ on the **prison situation** during the pandemic. In March 2020, Parliament suspended the mechanism for lowering imprisonment terms due to poor detention conditions, and requested the Government to present a draft law on improving the compensatory mechanism. Inter-prisoner violence and intimidation linked to informal hierarchies remained prevalent.

Hate speech remains an issue of concern, including at the highest political level, and by religious and community leaders. It mainly targets women and lesbian, gay, bisexual, transgender, intersex (LGBTI) persons¹⁵. Legislative amendments related to hate crime have been pending before Parliament since 2016. A new action plan for 2020–2024 on promoting the memory of the Holocaust and a culture of tolerance, combating racism, antisemitism, xenophobia and other forms of intolerance was adopted by the Government in January 2021.

Women continued to face **gender inequality** on the labour market, including a gender pay gap and age-based discrimination. While the legal framework no longer prohibits access to certain professions, its implementation remains slow and women continue to face de facto obstacles, such as lack of access to affordable care services. Women's involvement in decision-making is limited due to gender stereotypes and norms. The COVID-19 pandemic further worsened gender inequality, violence against women, and discrimination against those in marginalised groups (persons with disabilities, people living in extreme poverty). Parliament adopted on 11 June 2020 amendments in line with the Istanbul Convention granting to police the right to issue an emergency restriction order against a perpetrator of domestic violence. After approval by the Government in December 2019, the ratification of the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence (Istanbul Convention) stalled until it was passed in the first reading by the Parliament on 1 October 2021.

A new **Child Protection** Strategy and Action Plan for 2021-2026 is under preparation. The process of de-institutionalisation was advancing: the number of family care/foster families increased from 41 in 2019 to over 200 in 2020. Serious issues remained with infant mortality, child labour, including links to trafficking and sexual exploitation, as well as with the particular situation of Roma children and children left behind by their parents. Of concern is also the stagnating number of babies and children with disabilities in institutional care facilities and the insufficient quality of social services to support families in vulnerable situations. The COVID-19 pandemic and the accompanying measures to control it led to an increase of violence against children and an increase in child poverty.

2.2. Foreign and security policy

¹³ https://www.echr.coe.int/Documents/Annual_report_2020_ENG.pdf

¹⁴ http://ombudsman.md/wp-content/uploads/2020/08/en-rezumat_situa%C8%9Bia-Covid19_pe-site.pdf

¹⁵ <https://rm.coe.int/report-on-the-visit-to-moldova-from-9-to-13-march-2020-by-dunja-mijato/16809ed0e4>

Moldova continued cooperating with the EU on foreign and security policy. In 2019, Moldova aligned itself with 80% of the EU Common Foreign and Security Policy positions with which it was invited to align (comprising declarations by the High Representative on behalf of the EU and Council decisions on EU restrictive measures), while in 2020 the alignment rate dropped to 68%. Moldova significantly did not align itself with EU declarations and Council decisions concerning the Russian Federation, China (Hong Kong) and Belarus. The contribution to **Common Security and Defence Policy** missions continued, with one military staff representative seconded to the EU Military Training Mission in Mali since September 2020. The EU-Moldova Agreement on Security Procedures for Exchanging and Protecting Classified Information was operationalised in January 2021.

There was no progress on the adoption of a new **National Security Strategy**. The adoption of a Strategy and Action Plan on Weapons of Mass Destruction and Chemical, Biological, Radiological and Nuclear (CBRN) Security was delayed. Moldova continues to benefit from capacity building support through the EU CBRN Centre of Excellence initiative framework.

As regards **peaceful conflict resolution**, the most recent talks concerning the Transnistrian conflict took place in the 5+2 format in Bratislava in 2019; and the parties have not met in this format since then. 2020 was marked by a severe COVID-19 outbreak on both banks of the Nistru River, with negative effects on cooperation. The Transnistrian region is covered by the national vaccines strategy and Chişinău coordinates with Tiraspol on this issue in the Working Group on Healthcare. Freedom of movement across the administrative boundary line was further restricted, and a number of unauthorised checkpoints were installed in the Security Zone. However, in June 2021, Tiraspol announced that the special regime would not be reintroduced as long as the epidemiological situation remained favourable (the situation was restored as before the pandemic). The so-called quarantine checkpoints established by the de facto leadership in March 2020 in the Security Zone were removed. There was limited progress in the functioning of the Latin script schools, access to farmlands in the Dubăsari area and the apostillation of Transnistria-issued diplomas. In September 2020, Parliament adopted legal amendments on the functioning of joint vehicle registration offices in Tiraspol and Rîbniţa to prolong their functioning until 1 September 2022. The decision of Ukrainian authorities to allow only vehicles with Moldovan and neutral licence plates to cross the Moldovan-Ukrainian border entered into force on 1 September 2021, as agreed in the relevant 2018 Protocol decision, with a transition period until 1 October for vehicles with Transnistrian number plates to return through the territory of Ukraine.

The **EU Border Assistance Mission to Moldova and Ukraine** (EUBAM), together with the Moldovan and Ukrainian border and customs agencies, continued supporting the modernisation of border facilities at the Kuchurhan-Pervomaisc crossing point in the framework of the EU-financed project ‘Enhancing integrated border management along the Ukraine-Moldova Border’. The EUBAM 12 programme was extended until 30 November 2021, and the next phase of EUBAM is set to be adopted before the end of the year. In June 2020, the Government adopted a decision applying to economic operators from the Transnistrian region, exempting them from compliance with Moldovan economic policy measures and prohibitions until the beginning of 2022 if the imported goods remain in the territory of the Transnistrian region.

2.3 Justice, Freedom and Security

The Ministry of Justice carried out wide consultations on the draft **Strategy for Ensuring the Independence and Integrity of the Justice Sector 2021-2024** and its accompanying Action Plan. The documents were adopted in Parliament on 26 November 2020. However, the President refused its promulgation due to the absence of an extraordinary evaluation of judges

and of the abrogation of Article 307 of the Criminal Code (a provision foreseeing criminal liability of judges for rendering unwarranted judgements) and returned it to the Parliament. A clear timeline for adopting and implementing the strategy has not been presented yet.

The selection procedure and current composition of the **Superior Council of Magistracy** is still not in line with European standards and the recommendations of the Venice Commission and the Council of Europe Group of States against Corruption (GRECO). GRECO raised issues over disciplinary proceedings, the evaluation and promotion of judges and prosecutors, including the decision-making of the Superior Council of Magistracy for these processes, and of the Council's composition¹⁶.

Following legislative amendments to the Law on the Superior Council of Magistracy in January 2020, four lay members were appointed to the Council in March 2020, contrary to recommendations of the Venice Commission, which further criticised the appointments and selection procedure in June 2020 for taking account of political affiliation instead of merit. Decisions by the Superior Council of Magistracy on the appointment of new judges and the career of judges (promotion, transfer, evaluation and disciplinary proceedings) still lack the necessary level of transparency, as these decisions are regularly not reasoned or justified.

The draft amendments to the Constitution aim at strengthening the independence of the judiciary and bringing into line with European standards a number of aspects concerning judges' careers. The amendments focus on the appointment of judges and the composition and selection process of the Superior Council of Magistracy. After initial criticism in its first opinion, and following the *amicus curiae* opinion from the Venice Commission on 16 November 2020¹⁷, the Constitutional Court approved the amended text in its second opinion of 3 December 2020, and the amendments were approved by the Government and registered in Parliament on 10 December 2020 for adoption, as required by one of the conditions for the payment of the second tranche of the emergency EU macro-financial assistance programme. They were adopted by the new Parliament in second and final reading on 23 September 2021. The Law on the Superior Council of Magistracy, including the latest legislative amendments adopted in August 2021, will need to be further modified to bring it in line with the newly adopted constitutional amendments.

The **judiciary** continued to grapple with allegations of internal divisions and vested interests. Several judges of doubtful professional integrity were promoted, including the judge who invalidated the Chişinău elections in 2018. In another case, a judge did not receive a permanent appointment after the 5-year probation period, a decision that was linked by some to an earlier complaint he had made about interference in the judicial procedure by his hierarchy¹⁸.

As of December 2019, the new **Prosecutor General**, Alexandru Stoianoglo (appointed in November 2019), conducted internal inspections of the two Specialised Prosecutors' Offices on Anti-Corruption and Organised Crime, without guarantees that their functional and operational independence would be safeguarded. Chief Anti-Corruption Prosecutor Viorel Morari was suspended from office on 23 January 2020 after criminal charges were brought against him; later some of these charges were dropped. A new Chief Prosecutor for the Office of Combatting Organised Crime was appointed in 2020, but the selection procedure did not involve a real competition. The Law on prosecutors office was amended in July 2020, after

¹⁶<https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/16809fec2b>

¹⁷ [https://www.venice.coe.int/webforms/documents/?pdf=CDL-PI\(2020\)014-e](https://www.venice.coe.int/webforms/documents/?pdf=CDL-PI(2020)014-e).

¹⁸ <https://anticoruptie.md/ro/stiri/o-organizatie-a-judecatorilor-se-solidarizeaza-cu-un-magistrat-inlaturat-din-sistem>

little public consultation, providing for the appointment of prosecutors by transfers instead of competitions. The new Parliament adopted in second reading further amendments to the Law on prosecutors office in August 2021, including mechanisms to evaluate the activity of the Prosecutor General and to establish his disciplinary liability.

Prosecutor General Stoianoglo declared the conviction of businessman Vaeceslav Platon (sentenced in 2017 to 18 years in prison for fraud and money laundering and confiscation of assets of MDL 896 million) as ‘illegal’ and ordered his release from prison even before the review case had been sent to the courts. After his acquittal in the bank fraud case in June 2021, Vaeceslav Platon left the country and did not appear at subsequent court hearings in other pending cases, prompting the Chişinău Court to issue an arrest warrant. Public prosecutors dropped the charge of money laundering against 13 judges involved in the Russian Laundromat affair. For alleged involvement in the banking fraud, prosecutors requested the seizure of Victoriabank’s assets, raising questions over the investment climate and banking stability. On the other hand, charges were dropped against minority shareholders who facilitated the taking of control over the defrauded banks¹⁹. Ilan Shor, the main figure in the Kroll report, who was sentenced in 2017 in the first instance to more than 7 years imprisonment, remains a fugitive from justice, with his trial continuously postponed. Ex-PM Vlad Filat, who had been sentenced to 9 years in prison for corruption and undue influence as part of the banking fraud investigation, was released from prison after serving only four years²⁰.

GRECO published in October 2020 the Second compliance report on the prevention of corruption among Members of the Parliament (MPs), judges and prosecutors, finding that the current level of compliance is ‘globally unsatisfactory’. The report mentions the repeated failure to address political corruption, citing rushed legislative processes, the lack of progress on adopting a code of conduct for MPs and unclear application of the legislation on lifting parliamentary immunity.

Moldova has made efforts in the **fight against corruption**, such as increasing the annual budget of its anti-corruption institutions including the National Integrity Authority, the Criminal Asset Recovery Agency and the Financial Investigation Unit. The 2017-2020 National Integrity and Anti-corruption Strategy was extended for two years. The June 2020 draft law on establishing an Anti-corruption Court was under examination, but was not included in the 2021-2024 Justice Sector Strategy and Action Plan. In May 2020, Moldova joined the peer review programme of the OECD Anti-corruption Network for Eastern Europe and Central Asia (ACN) – the Istanbul Anti-corruption Action Plan (IAP).

Amendments to the Law on the **National Integrity Authority** regarding assets and conflict of interest declaration were adopted in first reading in August 2021.

According to the 2021 report of the United Nations Interregional Crime and Justice Research Institute on **illicit financial flows and asset recovery**²¹, Moldova has invested substantially in policy reform measures to combat corruption, organised crime and illicit financial flows. However, there are still significant opportunities to strengthen and streamline capacity and results in the seizure and confiscation of assets linked to illicit activity. The report recommends to consider bolstering transparent mechanisms for the seizure, confiscation, management and distribution of illicitly-obtained assets, and ensure the Criminal Asset Recovery Agency is enabled to act as a key entity facilitating this role.

¹⁹ Kroll First report <https://www.rise.md/wpcontent/uploads/2017/03/Kroll-Moldova-Shor-Melnic.pdf>

²⁰ <https://crjm.org/en/justitie-echitabila-sau-justitie-selectiva-studiu-de-caz-dosarele-filat-platon-si-sor/>

²¹ <http://www.unicri.it/Publications/Illicit-Financial-Flows-Asset-Recovery-Moldova>

The Law on **anti-money laundering** entered into force in December 2020, but secondary legislation is still missing. A draft law redefining the beneficial owner concept was approved at first reading by Parliament in July 2020, but its conformity with international standards will be assessed once it is adopted. The Law on amending and supplementing the Anti-Money Laundering/Countering Financing of Terrorism Law, introducing a new definition of the beneficial owners to enhance traceability of ownership, still needs to be adopted. The finalisation and adoption of a new law on **control of assets and conflict of interests** is pending.

The 2020-2025 Anti-Money Laundering/Counter Terrorism Financing Strategy was adopted in December 2020 and work to conduct the second Money-Laundering/Terrorism-Financing National Risk Assessment had started. An **Asset Recovery Mechanism**, aimed at returning to the Moldovan state funds stolen in the 2014 bank fraud, was approved on 18 May 2021. Nevertheless, the 2018 bank fraud criminal asset recovery strategy requires a comprehensive update to ensure it is achievable, efficient and effective.

Implementation of guidelines on parallel financial investigation aimed at implementing the requirements of the EU anti-money laundering standards and improving the law enforcement agencies' capacities in investigating money laundering, terrorism financing and other serious crimes continued. In March 2021, Moldova's Financial Unit was working on cooperation mechanisms with other national competent authorities to allow improved information sharing.

Cooperation in criminal matters continued through implementation of the 2014 cooperation agreement with Eurojust enabling swift and safe exchange of information. In June 2020, an agreement was signed with the Prosecutor General's Office of Latvia on the creation of a Joint Investigation Team to examine the 2014 banking fraud case, in line with the conditions for the disbursement of the second tranche of the COVID-19 macro-financial assistance.

The **Citizenship-for-Investment Programme**, granting Moldovan citizenship in exchange for investment ran between 2018 and 2020. The programme was finally abolished upon EU request on 1 September 2020. Applications submitted until September continue to be examined according to the same rules applicable before termination of the scheme, including due diligence checks. 38 applications were submitted for 98 people and 20 applications concerning 52 people were successful. Six applications for 19 people are still to be assessed.

The implementation of the **Police Development Strategy** (2016-2020) and the Public Order and Security Strategy (2017-2020) saw moderate progress in a number of areas, meeting the policy conditions for the Police Budget Support Programme disbursements. Further, a number of important points from the Police Development Strategy remain to be addressed. Despite the envisaged creation under the Association Agenda of a Joint Law Enforcement Training Centre as a separate entity, the institution was created under the Ministry of Internal Affairs' existing Training Academy. The physical construction of the training centre was also lagging behind. Following the strategy's expiration at the end of 2020, a working group was established to elaborate a successor strategy for the years 2021-27.

On **cybersecurity**, the operationalisation of a national computer emergency response team in line with the provisions of the National Information Security Strategy and Action Plan 2019-2024 is pending approval of its mandate to foster cooperation among private service providers.

Organised crime groups continued to represent a substantial criminal threat as Moldova continued to be an important source country for counterfeit alcoholic beverages smuggled into the EU and a major source of contraband and counterfeit cigarettes. The excessive flow of

cigarettes shipped to the Transnistrian region resumed at the beginning of 2020 with a significant share of those cigarettes being smuggled into the EU²². Moldova is also a transit country for illegal drugs, especially heroin, trafficked to the EU. Moldovan organised crime groups are reported to be heavily involved in financially motivated malware and ransomware distribution.

Moldova is a reliable partner in the fight against **organised crime**. It has good, even if still limited cooperation with Europol Cybercrime Centre. Moldova continues to cooperate on investigations into international electronic and online payment fraud participating in the European Money Mule Action week. Moldova is also working together with Europol on fighting online child sexual exploitation having participated in the Victim Identification Task Force in 2020. Moldova's cooperation with Europol's European Counter Terrorism Centre remains limited.

Moldovan participation in the European Union Agency for Law Enforcement Training (CEPOL) activities has been rather low so far. Moldova also benefits from the regional projects Training and Operational Partnership Against Organised Crime (TOPCOP) and Fighting Organised Crime in the Eastern Partnership region, led by both Europol and CEPOL. The country is also a beneficiary of the EU4Monitoring Drugs project implemented by the European Monitoring Centre for Drugs and Drug Addiction. In 2020, Moldova participated in the European Multidisciplinary Platform Against Criminal Threats (EMPACT).

Moldova has expressed willingness to engage with the EU to discuss ways and means for its integration in the recently adopted EU Action Plan on Firearms. Concerning cooperation in civil matters, there were no developments on the signature and ratification of the Hague Conventions by Moldova.

Moldova remains a source for **trafficking in human beings** for sexual and labour exploitation. The Moldovan authorities have put in place their 2018-2023 National Strategy for Preventing and Combating Trafficking in Human Beings and accompanying 2018-2020 Action Plan. The National joint risk analysis group on fighting cross border crime, trafficking in human beings and irregular migration continued to function.

On **data protection**, the approval of legislation to ensure alignment with the General Data Protection Regulation (2016/679) and the Data Protection Directive (Directive 2016/680) for Police and Criminal Justice Authorities was pending. A draft law on personal data protection has been awaiting its second reading in Parliament since November 2018. A number of civil society organisations and media outlets have expressed concern about some of the draft law's provisions, including concerns on limiting access to information of public interest and on increasing the powers of the National Center for Personal Data Protection²³.

3. Economic Development and Market Opportunities

3.1 Economic development

On the back of the pandemic and a prolonged drought in the summer, **Gross Domestic Product** (GDP) fell by 7% in 2020, the steepest decline in years. The recession was driven primarily by a fall in final consumption, which contracted by some 7%, followed by investments that declined by 2%. On the supply side, agriculture as well as services, such as

²² According to the information of the Moldovan Public Services Agency, from December 2020 to June 2021, there was neither cigarette import to the Transnistrian region nor new licenses were issued to companies from the left bank of the Nistru River.

²³ <http://media-azi.md/ro/stiri/parlamentul-votat-%C3%AEn-prim%C4%83-lectur%C4%83-controversata-lege-privind-protec%C8%9Bia-datelor-cu-caracter>

wholesale and retail trade, were among the most affected sectors. The Government introduced several growth-friendly measures to mitigate the socio-economic consequences of the crisis, including a temporary increase in social benefits, tax deferrals and monetary easing. However, the overall level of support was relatively low, at about 2% of GDP. Starting 2021, the Moldovan economy gradually begins to recover, with GDP growing at 1.8% in Q1. Recent forecasts by the World Bank and the International Monetary Fund (IMF) project an overall recovery within the range of 3.8% and 4.5% of GDP.

Due to the steep decline in domestic demand and falling commodity prices (including fuel), in 2020 **inflation** moderated sharply. In December, the annual inflation rate reached 0.4% year-on-year, significantly below the target level set by the National Bank of Moldova (NBM) at 5% (+/- 1.5 pps). In 2021, however, driven by higher food prices, inflation began to rise considerably. In August, the annual inflation rate stood at 4.6% year-on-year, nearing the target rate. As such the central bank revised the policy rate twice, from a record low of 2.7% in November 2020 to 3.7% in July 2021 and further to 4.7% in September.

The COVID-19 pandemic changed Moldova's **fiscal situation**. The initial budget deficit for 2020 projected at 3% of GDP was amended several times, to up to 8% of GDP following the September 2020 revision. However, due to underspending and several optimization measures by the Government, the fiscal deficit narrowed to 5.3% at the end of the year. In 2021, the fiscal position is assumed to remain challenging. Spending on health and social protection continued to increase in Q1 2021 by 6.4% and 6.2% respectively. The State Budget for 2021 projects a further increase of the deficit to 6.5% of GDP. Due to the pandemic-induced crisis, **public debt** went up considerably in 2020 to 32.9% of GDP from 27.4% of GDP in the previous year.

Financial assistance from international partners was key in 2020. In April 2020, Moldova benefited from an emergency **IMF programme** of USD 235 million. In July 2020, the IMF and Moldova signed a new staff level agreement for a three-year reform programme of Extended Credit Facility/Extended Fund Facility for USD 558 million. The IMF Executive Board was expected to adopt the programme in September 2020. However, due to delays in the implementation of the prior actions²⁴, as well as due to the political situation, the programme's adoption has been postponed. Discussions with the IMF about the programme have restarted, following the appointment of the new Government.

In 2020, Moldova was a major beneficiary of **EU macro-financial assistance (MFA)**. A disbursement of EUR 30 million (EUR 10 million in grants and EUR 20 million in loans) was made in July 2020 following the fulfilment of relevant conditions. In November, Moldova received the first tranche of the emergency COVID-19 MFA, worth EUR 50 million in loans on highly favourable terms to cover urgent financing needs resulting from the COVID-19 crisis. Given the recent significant progress made with respect to the fulfilment of the Memorandum of Understanding policy conditions the Commission disbursed the second instalment of EUR 50 million in loans on 7 October 2021.

After some initial volatility in the exchange rate market, Moldova's **currency**, the lei, stabilised. Among others, it can be accounted for by the inflow of foreign currency via remittances, which proved resilient throughout the pandemic. Although the level of **remittances** noted a slight decline at the start of 2020, it soon rebounded, going back to the pre-crisis level, at around 15% of GDP. In Q1 2021, remittances continued to grow to reach

²⁴ The remaining prior action to be implemented by Moldova concerned the selection of the three Deputy Governors of the National Bank of Moldova.

17.5% of GDP, with an on-going notable increase of transfers from EU countries whilst declining from other regions.

The **banking sector** remained well capitalised, but its financial stability was affected by certain actions initiated by law enforcement agencies. Investigations into several systemically important banks of Moldova (including Victoria Bank) continued, with similar proceedings now also taking place in the insurance sector. There has been little progress in the **banking fraud** investigation or in asset recovery (also see section 2.3). Moreover, the former parliamentary majority, headed by the Socialist Party, on several occasions attempted to undermine the independence of the National Bank of Moldova, which raised significant concerns among the international community, including the IMF, World Bank and the EU. The former Government repeatedly attempted to pass in the Parliament the abrogation of the “one-billion-dollar law”, which risked the de-capitalisation of the central bank, thus undermining the country’s economic stability. Although President Sandu refused to promulgate the law, some further concerns remain, notably with regard to the acquittal of Vaeceslav Platon who had been sentenced to prison for his involvement in the bank fraud and fled Moldova in July 2021.

In September 2020, Parliament adopted the Law providing transfer of supervision powers from the National Commission for Financial Markets to the National Bank of Moldova. This would establish the national bank’s supervision of **insurance** and non-banking credit institutions from 2023. The law was adopted in the context of a constantly increasing credit portfolio of non-banking credit institutions and weak supervision of the insurance market. In September 2020, Moldova became a full member of the international car insurance green card system, following a 20-year monitoring period. Parliament also adopted long-awaited changes to the Law on insurance, transposing to some extent the EU Solvency II Directive. However, the financial stability of the insurance sector in general remains at risk. Authorities did not advance on the implementation of proper supervisory audits by international auditors or on fixing shareholders transparency problems in some systemic companies.

On **taxation**, there was some progress on the alignment of value-added tax (VAT) legislation. However, further approximation with the EU VAT Directive is still required, as well as harmonisation with the EU excise duty legislation. In September 2020, Parliament adopted provisions that will provide special powers to the State Tax Service to conduct investigations and determine the degree of criminal liability for economic crimes. The increased powers raised concerns due to the risk of abuse and corruption, and overlapping functions with other authorities. The practical implementation of the provisions will require close monitoring.

The National Bureau of **Statistics** continued its efforts to increase compliance with international and European standards, and to strengthen the role of the National Bureau of Statistics in the coordination of the National Statistical System. However, the Bureau continues to suffer from severe lack of human, financial and IT resources, which hamper its efforts.

Moldova ranked 48th out of 190 countries in the 2020 World Bank ‘Doing Business’ Report. Long-standing issues over lack of judicial independence, outdated regulations and corruption continued to damage the **business environment and investment climate**. Several EU investors reported difficulties in access to fair and transparent justice. The OECD 2020 SMEs Policy Index report recommended more effective competition policy to promote a level playing field for all enterprises. The COVID-19 crisis had a negative effect, especially on SMEs in the retail, transport, hospitality, tourism and services sectors, and in agriculture. Moldova continued to take part in the Enterprise Europe Network as part of participation in the COSME programme.

Moldova plays an active part in the Steering Group meetings of the Common Maritime Agenda for the Black Sea, contributing to the discussion on the impact of COVID-19 on **blue economy sectors**, future flagship projects and related investment prospects. In relation to the cooperation in the fight against illegal, unreported and unregulated fishing, the adoption of amendments to its relevant national legislation (definition for fishing vessels consistent with international instruments, rules for registration and deregistration of vessels) needs to be sped up. Drought and localised late frosts and hail led to a decrease of **agricultural** production. The Government allocated MDL 300 million subsidies to compensate crop loss.

The **unemployment rate** in 2020 was 3.8%, and the youth unemployment rate (15-24 age group) was 17.6%. The average employment rate decreased from 42.3% to 40.03%. During the COVID-19 state of emergency, unemployment benefit was increased to MDL 2 775, equivalent to the minimum wage. The Labour Code was also amended, including changes to adapt to the pandemic conditions, adding specific rules on teleworking.

In 2020, Moldova continued to approximate its legal framework to the EU *acquis* of **occupational health and safety**, and adopted some modifications to the Law on the reorganisation of the State Labour Inspectorate, bringing the competence for occupational health and safety monitoring back within the remit of the State Labour Inspectorate. However, restrictions on labour inspections set by Law No. 131 on state control of entrepreneurial activities persist. In May 2021, Moldova ratified the International Labour Organisation's Convention No. 161 on Occupational Health Services.

On 16 December 2020, the Law amending the Law on the State Pension System, lowering the retirement age to 57 for women and 62 for men, was adopted by Parliament and promulgated by then President Dodon. The World Bank expressed concerns that this law would reverse the hard-earned progress made in recent years on pension adequacy and sustainability, and leave fewer resources for priority spending in health, education and infrastructure.

As regards **public health**, in 2020 Moldova was seriously hit by the COVID-19 pandemic, adding pressure on the already stretched health and social service delivery systems. Against this background and to support the Government in mitigating the consequences of COVID-19 pandemic, the EU allocated EUR 15 million in budget support programme (the 'COVID-19 Resilience Contract') in 2020. Full implementation of the Coronavirus Infection Preparedness and Response Plan remains a priority. The use of the online tender platform for COVID-19 related procurement, as well as the monitoring of COVID-19 related tenders, was a positive step towards transparency of public procurement in the health sector, but the increased use of emergency procedures also heightened the risks of favoring or disadvantaging certain economic agents. Adoption of the National Health Strategy 2030 and its Action Plan is pending and more efforts are required to ensure full functionality of the National Public Health Agency. Moldova continued cooperation with the European Centre for Disease Prevention and Control in the field of communicable diseases and active participation in the 3rd Health Programme and Health for Growth 2014-2020 programme.

3.2 Trade and Trade-Related Matters

In 2020, the **EU remained the main trade partner of Moldova**, accounting for 53% of its total trade (approx. 67% of total exports and 45% of Moldova's total imports). Total trade between the EU and Moldova decreased by almost 11% compared to 2019, to slightly over EUR 4.2 billion. Following the implementation of the third-year review, certain tariff rate quotas and trigger volumes under the anti-circumvention mechanism were reviewed.

The pandemic had a negative impact on Moldova's **exports**, which registered an overall reduction of almost 16% in 2020. This happened mainly during the state of emergency. The EU maintained a share of 67% of Moldova's exports, but exports to the EU and to other

countries registered a decrease in the range of 15%. The main exports from Moldova to the EU in 2020 were electrical machinery and equipment, clothing and oil seeds (especially sunflower seeds). The main EU exports to Moldova were mineral fuels, electrical machinery and vehicles.

In December 2020, Parliament adopted amendments to the **Domestic Trade Law**, which were promulgated by former President Dodon on 22 December 2020. The amendments foresee an obligation for retailers to have at least 50% of Moldovan-made food products on their shelves, contrary to Moldova's commitments under the Deep and Comprehensive Free Trade Area (DCFTA) and to the World Trade Organization (WTO) provisions on national treatment of goods. In May 2021, new amendments to the Domestic Trade Law were adopted by Parliament, but President Sandu used the right of suspensive veto on legislation, refusing to promulgate them and referred back to Parliament for further review. On 23 July, the caretaker Government adopted an extensive list of products subject to the 50% rule, in order to implement the earlier amendments to the Domestic Trade Law adopted in December 2020. The implementing rules entered into force on 23 August 2021, thus running contrary to the DCFTA and WTO commitments.

As a result of the audit performed in February 2019, in 2020 the Moldovan accreditation body (MOLDAC) obtained full membership of the main EU accreditation body. The membership ensures the concept of 'accredited once, accepted everywhere', putting MOLDAC on equal footing with all EU Member States' accreditation bodies. In addition, the National Institute of Metrology became a member of the European Association of National Metrology Institutes, which ensures an integrated measurement infrastructure throughout Europe.

Moldova has made efforts to implement its **competition** legislation, but the independence and impartiality of the Competition Council remained an issue. A peer review of the Competition Council is pending. On enforcement of **intellectual property rights** legislation, some cases show a low level of cooperation by the stakeholders involved. The Government has yet to appoint a competent authority to enforce and verify the respect of the product specifications of geographical indications.

As regards **sanitary and phytosanitary standards**, additional reform efforts are needed to diversify the export of products of animal origin. On 16 July 2021, the Commission included Moldova in the relevant list of third countries authorised to export dairy products to the EU, subject to a specific risk-mitigating treatment. An EU audit is ongoing for the export of poultry meat and class A and B eggs. The reference laboratory of the Republican Centre for Veterinary Diagnosis received accreditation for new methods of animal health monitoring. A risk-based analysis system for import checks and controls still needs to be developed.

On **customs and trade facilitation**, an authorised economic operator mutual recognition programme was initiated and some progress was made. Despite EU support, Moldova's accession to the Common Transit Procedure Convention and the implementation of the New Computerised Transit System remain uncertain. The new Customs Code, drafted with EU technical assistance, was finally adopted by the Parliament on 24 August 2021, fulfilling one of the conditions for disbursement of the second tranche of the COVID-19 macro-financial assistance, paving the way for the future customs cooperation and trade facilitation. Laws to counter smuggling, import tax evasion and increase customs investigation powers were also part of the conditions for obtaining the COVID-19 macro-financial assistance; these were adopted and promulgated in December 2020.

The Ministry of Economy and Infrastructure adopted a roadmap to boost the process of **digitalising the national economy** and developing e-commerce. Moldova benefited from several components of the EU4Digital regional project and pilots such as the mutual

recognition of electronic signatures with Ukraine. A new instrument to support SMEs digitalisation was co-funded by the EU as a rapid COVID-19 response measure.

According to the World Bank 2020 report on the assessment of the **public procurement** system in Moldova, the Law on public procurement is overall aligned with good international practice, but will require further amendments. The corresponding secondary legislation is partly outdated and contradictory and requires revision. A new Law on utilities procurement has been adopted and entered into force in June 2021. Centralised procurement is little developed and its use in practice (mainly for medical supplies and equipment) is hampered by regulatory problems (e.g. no provisions for framework agreements) and inadequate e-procurement systems. The Memorandum of Understanding for the MFA called for the strengthening of transparency and efficiency of central procurement in the healthcare sector, requiring re-design of the e-procurement system. In October 2020, Moldova was granted access to the EU Tenders Electronic Daily system, and its contracting authorities can now publish contract notices in the Official Journal of the EU. A new Public Procurement Strategy for 2021-2026 and action plan, reflecting the subsequent alignment steps is pending adoption.

Limitations and deficiencies faced by the labour inspection system have remained a topic for discussion in the **trade and sustainable development sub-committee format**. In November 2020, a modification to the law on the Labour Inspection was approved by the Parliament, bringing occupational safety back under the State Labour Inspection's remit, while unannounced inspections are still carried out under the requirement of Law No. 131 which is not fully aligned to the International Labour Organisation's standards.

On **company law**, the amendments to the Law on joint stock companies and related by-laws were approved by Parliament in February 2020 and entered in force on 1 January 2021. The amendments are intended to align with some of the provisions of Directive (EU) 2017/1132 and with Directive 2017/828 of 17 May 2017 amending Directive 2007/36/EC on encouraging long-term shareholder engagement.

4. Connectivity, Energy Efficiency, Climate Action, Environment and Civil Protection

Although Moldova was the first Energy Community contracting party to adopt a new law transposing the EU Energy Efficiency Directive, the elaboration and adoption of secondary **energy** efficiency legislation is still ongoing. This process continued with the approval of the 2019-2021 National Energy Efficiency Action Plan and the approval of the programme for renovation of public buildings. The new Regulation for energy audit²⁵ was also approved. The reform of the Moldovan power sector to align with the EU's Third Energy Package was advancing slowly. Moldelectrica is expected to be certified in 2021 as independent system operator. The yearly electricity acquisition process improved compared to previous years, although outstanding issues included corporate governance and the need for enhanced transparency at Energo.com, the state-owned trader company. The National Agency for Energy Regulation adopted the new electricity market rules²⁶ thus ensuring a transparent and competitive electricity market. Gas unbundling was still pending and was postponed due to the COVID-19 crisis. The construction of the strategic Ungheni-Chișinău gas pipeline was completed in August 2020. The construction of the electricity interconnection between Moldova and Romania started, with the EU providing a EUR 40 million grant, while also leveraging loans from the European Bank for Reconstruction and Development and European Investment Bank (EIB). New feed-in tariffs for smaller electricity producers from renewables

²⁵ Order of The Government of The Republic of Moldova, September 10, 2020 No. 676

²⁶ National Energy Regulatory Agency Decision No. 283 dated 07-08-2020

were established by the regulator in February 2020²⁷ to promote renewable energy sources. Tenders for big renewable projects were postponed to 2021.

Environment and climate considerations are embedded into the new Moldova 2030 National Development Strategy, both as standalone priorities and as clearly defined sustainability objectives. The overarching reorganisation of the institutions subordinated to the Ministry of Agriculture, Regional Development and Environment continued with the reform of the water (Apele Moldovei) and forestry (Moldsilva) agencies, including their former state enterprises. Substantial progress was made on **waste and chemicals management**. In June 2020, Parliament ratified the financing agreement with the EIB for the ‘Solid Waste in the Republic of Moldova’ project, implemented as part of the 2013-2027 National Waste Management Strategy. The framework Law on chemical substances, adopted at the end of 2018, came into force in February 2020. The Law on the control of major accident hazards involving dangerous substances²⁸ was adopted in June 2020, approximating to the Seveso III Directive, with a number of implementing acts in this field adopted in the same year.²⁹

On **climate change**, a more robust national monitoring, reporting and verification system was put in place in 2019 through the adoption of a regulation on measuring, reporting and verifying greenhouse gas emissions, in compliance with the respective transparency requirements of the Paris Agreement and partially transposing the respective EU *acquis*. In March 2020 Moldova submitted its second nationally determined contribution (NDC2) and set up a new mechanism to coordinate climate change activities.

In the area of **transport**, work continued on restructuring of the Moldovan railway sector and of the ‘Moldovan Railways’ state enterprise in accordance with the 2018-2021 Action Plan. In June 2020, the Government approved the new Railway Code and sent it to Parliament (in line with EU requirements). The Common Aviation Area Agreement between the EU and its Member States and Moldova entered into force on 2 August 2020. On transport infrastructure, Moldova continued to implement priority projects, which are part of the extended indicative core TEN-T networks. In January 2020, the Government approved the 2020-2021 Road Safety Action Plan, and approved and sent to the Parliament the law on the creation of an accident investigation bureau for air, rail and naval accidents in September 2020. Moldova has not progressed on improving its performance in the maritime safety area, thus continues to feature on the Black List of the Paris Memorandum of Understanding.

On **civil protection**, Moldova has a 24/7 functioning Emergency Management Centre, which cooperates with the EU's Emergency Response Coordination Centre and the UN-EU Global Disaster Alert and Coordination System. The Moldovan General Inspectorate of Emergency Situations cooperates with the Union Civil Protection Mechanism (UCPM) as well as with a number of EU Member States and Eastern Partnership countries. Following Moldova's activation of the UCPM in March 2020 in relation to COVID-19, the mechanism facilitated the delivery of in-kind assistance (personal protection equipment, disinfectant) offered by Austria and Poland. In February 2021, Moldova triggered the UCPM mechanism again, leading to offers and subsequent deliveries of equipment and vaccines from the Czech Republic, Romania, Poland, Germany, and Austria. In October 2020, the third phase of the EU-funded ‘Prevention, Preparedness and Response to Natural and Man-made Disasters in the Eastern Neighbourhood Countries’ programme (PPRD East 3) started supporting Moldova

²⁷ National Energy Regulatory Agency Decision No. 54 of 28-02-2020

²⁸ Law No. 108/2020 of June 18, 2020 on control of the risk of major accidents caused by hazardous substances.

²⁹ Regulation on the export and import of chemicals; Regulation on packaging and packaging waste; Regulation on batteries and accumulators and their waste; and Regulation on the control of emissions of volatile organic compounds resulting from the storage and distribution of petrol from terminals to petrol stations.

in its efforts to mainstream EU standards in its legislative and institutional frameworks and strengthen national capacities in disaster risk management.

5. Mobility and people to people contacts

According to the data provided by Moldovan authorities, from 28 April 2014 (the start date of visa liberalisation) until 31 December 2020, some 2 366 647 Moldovan citizens made almost 9 million trips to the Schengen area under the **visa-free regime**. In 2020, attempts by Moldovan nationals to cross the EU external borders irregularly remained very low (34). The number of Moldovan nationals found to be irregularly staying rose from 16 540 in 2019 to 24 685 in 2020 (an increase of 49%). In 2020, the number of Moldovan nationals being refused entry in Member States also continued to rise, reaching the highest number on record (increased by 28%, from 7 940 in 2019 to 10 140 in 2020). Moldova has put in place information and awareness raising campaigns related to visa-free travel and a number of actions particularly targeted at the integration of people from vulnerable communities/people in vulnerable situations.

The number of **asylum** applications decreased from 6 440 in 2019 to 4 865 in 2020, a decrease of 24%. The asylum recognition rate (including humanitarian status) slightly increased from 0.8% in 2019 to 1.0% in 2020. To address the issue of unfounded asylum applications, the Moldovan authorities have undertaken a number of actions to dissuade vulnerable communities from leaving the country with the purpose of applying for asylum. These included meetings with community mediators at local and regional level to address root causes of illegal migration.

While there has been a decrease in the return rate (contrasting with the trend observed in past years and likely the consequence of the COVID-19 pandemic), Member States report good cooperation on **readmission** with Moldova and Frontex reports a smooth implementation of return operations. Over the course of 2020, 6 755 return decisions were issued to Moldovan nationals (10% decrease compared to 2019). Effective returns (2 620) fell by 44% in 2020.³⁰

Border controls have been reinforced along the Moldovan-Ukrainian border with joint patrolling (partially covering the Transnistrian segment of the border between the two countries), including 219 joint operations in 2020. Since 5 June 2019, the joint patrolling at the Moldovan-Romanian border is being carried out under the bilateral protocol on the establishment and activities of joint patrol teams at the common state border, signed in November 2018. In 2020, 249 border police officers were trained on human rights issues and 118 officers on migration related issues. Frontex has initiated consultations with the Moldovan counterparts on a new cooperation plan covering 2021-2023 under its working arrangement with the Moldovan Border Guard Service.

Despite some progress, implementation of the **Education** Development Strategy for 2014-2020 is still incomplete. Rationalisation of the school network for both general and vocational education, involvement of business in vocational education and training, partial implementation of lifelong learning provision and, most importantly, the increasing lack of highly trained teachers that join and remain in the education system are some of the pending issues. The National Anti-corruption Strategy, adopted in August 2018, helped reveal fraud cases and corruption schemes in education sector, and was followed by redesign of the textbook eco-system in view of more transparency both in tendering and in evaluation.

³⁰ https://ec.europa.eu/home-affairs/sites/default/files/pdf/04082021_report_commission_european_parliament_council_fourth_report_visa_suspension_mechanism_com-2021-602_en.pdf

Additionally, procedures for teacher evaluation and certification processes were reviewed in the course of 2019-20 in order to meet higher transparency and anti-corruption standards. The process of curricula reforms continued as planned, with gradual introduction of improvements in different study years. The number of newly hired young teachers increased significantly in the 2020-2021 school year, though a chronic lack of teachers persists in many fields. Moldova coordinates Priority Area 9 (People and Skills) of the EU Strategy for the Danube Region together with Austria and Ukraine, covering pre-university education, labour market and marginalised communities in the Danube Region.

Despite significant improvements thanks to implementation of the 2013-2020 **Vocational Education and Training** Development Strategy, shortcomings remain in relation to limited capacity in the National Centre for the Development of Vocational Education (VET). Sectoral committees, envisaged to reinforce ties with the labour market, do not fulfil their objectives. Structural improvement and capacity strengthening have been implemented for dual VET, in particular through externally funded programs and mobilization of dual VET expertise at ministry level. Progress has been recorded of life-long learning thanks to improved validation procedures.

Streamlining of the network of public **higher education** institutions started with the first university merging enacted in 2020; the merger was followed by an increase in student enrolment. A predictable per-capita financing system for universities was launched. However, the allocation of places per field of study covered by public financial support is based on the country's actual needs, rather than on an evidence-based catchment forecast. This results in a partial mismatch between the learning supply chain and the needs of the country and its labour market. Long-awaited measures for increased ethical behaviour in universities are still not implemented. The EU assistance in the area of higher education continued to be provided via Erasmus+, with 1 179 short term mobilities for higher education students, staff and researchers, 4 large Capacity Building for Higher Education projects and 4 Jean Monnet projects in 2020. Under Horizon's Marie Skłodowska-Curie Actions (MSCA) 2014-2020, 62 Moldovan researchers have received funding for training, mobility and career development.

Moldova made significant progress in the area of **research and innovation**. The new National Agency for Research and Development is now fully operational. Most secondary legislation was approved, such as the National Plan for Research and Innovation and the research-financing methodology, and the first grant competitions have taken place. The system reacted efficiently to the COVID-19 pandemic, with implementation of research grants. Moldova is the most advanced country in the Eastern Partnership region on developing its National Smart Specialisation Strategy (S3), which remains to be adopted. In spite of visible major advances on the legislative and structural front, the sector lacks financing. Since its association to Horizon 2020 in 2014, Moldova has increased its participation and Moldovan entities have participated 93 times to 66 signed grants of collaborative Marie Skłodowska-Curie Action (MSCA), European Research Council and small and medium-sized enterprises instrument actions of Horizon 2020.

Attention to **cultural heritage** remained high on the political agenda and generated interest in civil society, even if progress in this sector is yet to materialize through the adoption of a revised law in line with minimum standards in Europe. In 2020, Moldova participated in the Creative Europe programme with 2 projects. The creation of the National **Youth** Agency represents progress, though the Agency still needs to be put into operation. The Erasmus+ programme and European Solidarity corps have supported mobilities, exchanges and volunteering opportunities for 1 315 Moldovan youth and youth workers in 2020.

6. Financial Assistance

The EU continued to provide financial assistance to support the implementation of reform commitments under the Association Agreement and to improve citizens' lives in line with the 2017-2020 Single Support Framework for EU support to Moldova and the '20 Deliverables for 2020' under the Eastern Partnership. In March 2020, a Joint Communication 'Eastern Partnership Policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all' was adopted, setting out five long-term policy objectives under the general theme of resilience. These priorities were further elaborated in the July 2021 Joint Staff Working Document 'Recovery, resilience and reform: Post 2020 Eastern Partnership priorities', which also includes an Economic and Investment Plan for the Eastern Partnership, and five Flagship initiatives for Moldova.

As part of the EU's global **response to the outbreak of the COVID-19 pandemic**, the EU redirected, accelerated, and deployed new programmes worth more than EUR 127 million of bilateral grant funding (including the Annual Action Programme 2020, see below) to mitigate the immediate impact of the pandemic, strengthen the resilience of the healthcare system, and support socio-economic recovery, applying the Team Europe approach. This includes, EUR 36.4 million which were made available through two budget support programmes to mitigate the consequences of COVID-19 (EUR 21.4 million under the Police Budget Support programme and EUR 15 million under the COVID-19 Resilience Contract). As the conditions for disbursement were met, the decision to disburse the full amount was announced by the Commission on 14 September 2021.

On 2 June, the Commission published an **Economic Recovery Plan** for Moldova worth up to EUR 600 million over the next three years to support the country's post-COVID socio-economic recovery, promote investment, and leverage reforms, notably in the areas of justice and fight against corruption.

The **2020 Annual Action Programme** (AAP) was adopted with an overall budget of EUR 55 million. The programme includes: the EU4Moldova Local Communities programme supporting rural development; a EUR 15 million budget support Resilience Contract to mitigate the impact of the COVID-19 pandemic in Moldova; and the EU4Moldova Facility supporting the health response to the COVID-19 pandemic and Association Agreement related reforms. The latter aims at strengthening capacity to respond to the COVID-19 public health emergency; strengthening supervision, corporate governance and risk management in the financial sector; enhancing transparency, accountability of and access to the judiciary system and strengthening capacity and sustainability of local media.

In December 2020, the EU Confidence Building Measures programme was topped up with EUR 4 million to complement ongoing activities as well as support the implementation of new actions, most notably a trolleybus line to connect localities under Chişinău and Tiraspol administration.

Major projects completed in 2020 are in areas of energy efficiency (upgrading of the district heating system in Bălţi), energy security (the Ungheni-Chişinău gas pipeline), support to small and medium-sized enterprises (DCFTA targeted access to finance support under the EU4Business facility) and support to civil society (sub-granting schemes to grassroots CSOs to help them become drivers of democratic change at local level and provide local social services).

As regards the **EU's macro-financial assistance**, in addition to the structural reform conditions for disbursement set out in the Memorandum of Understanding, a letter was handed over to the Moldovan Prime Minister in February 2020 with eight short-term policy actions to inform the political assessment of the situation in the Moldova in the context of the

2017-2020 MFA programme (and ongoing budget support programmes)³¹. The implementation of certain reform measures in the first half of 2020 by Moldova meant that the EU was able to approve disbursement of the second tranche of EUR 30 million of the 2017-2020 macro-financial assistance (MFA) programme. The third tranche of EUR 40 million, however, was not disbursed as some conditions remained unfulfilled by the end of the programme's availability period. In order to reduce the negative impact of the COVID-19 crisis on the economy, the EU made available to Moldova a one-year emergency MFA programme of EUR 100 million available to Moldova, as part of a wider package to 10 enlargement and neighbourhood partners, aimed at covering urgent financing needs resulting from the pandemic. The first EUR 50 million tranche of the COVID-19 MFA was disbursed on 25 November 2020. Given considerable progress on the policy implementation since the parliamentary elections in July, on 7 October 2021 the Commission disbursed the second MFA tranche of EUR 50 million. This follows a positive assessment of the Memorandum of Understanding conditions, with one action (on asset recovery strategy) requiring a waiver.

Moldova continues to benefit from a range of **regional programmes** covering economic development and market opportunities; strong institutions and good governance; connectivity, energy efficiency, environment and climate change; mobility and people-to-people contacts; and a number of cross-cutting issues such as gender equality, media freedom, and civil society.

As regards **European territorial cooperation programmes**, Moldova participates on equal footing with EU Member States in three programmes supported by the European Regional Development Fund and European Neighbourhood Instrument (ENI). In Danube Transnational Cooperation Programme, Moldovan beneficiaries are supported with an EU financial envelope of EUR 5 million. In addition, Moldova's regions benefit from the cross-border cooperation (CBC) with EU Member States, Eastern Partnership countries and Turkey within the ENI CBC Black Sea Basin programme. The EU financial contribution for this programme is EUR 39 million. Furthermore, the ENI cross-border cooperation programme Romania-Moldova covers the whole territory of the Republic of Moldova with an EU financial support of EUR 81 million.

7. Concluding remarks and future outlook

The EU continued to work with the Moldovan Government on the basis of mutual commitments to reforms and to the core principles enshrined in the EU-Moldova Association Agreement/DCFTA, on the basis of strict conditionality.

Following the strong progress achieved in the second half of 2019, the EU expected urgent and serious action from the Moldovan authorities to continue the long-awaited justice reform, regain public trust in the judiciary and public administration system, and improve the country's business and investment climate.

³¹ These were: 1. Setting up an international joint investigation team to recover assets from the 2014 banking fraud; 2. Joining the OECD anti-corruption network Istanbul Anti-Corruption Action Plan and formally participating in the 'EU for Integrity' regional programme; 3. Adoption of the law on Anti-Money Laundering sanctions by Parliament; 4. Extending the moratorium on the Citizenship for Investment programme until the provisions on programme in the Law of Citizenship are repealed; 5. Launching consultations among political parties and other stakeholders to prepare a strategic concept on the necessary changes in the judicial sector; 6. Adopt at the second reading the draft law on non-commercial organisations; 7. Agreeing to launch independent peer reviews of the Audio-visual Council and the Competition Council; 8. Amending the law on the Superior Council of Magistracy in line with European standards, GRECO and Venice Commission recommendations.

In spite of some progress in several areas, the second half of 2020 in particular saw increasing concerns as regards: (i) backsliding in the rule of law standards and in the justice sector; (ii) the lack of progress and negative developments in the fight against corruption and money laundering; (iii) lack of progress in the investigation of the 2014 banking fraud; and (iv) the appointment of four lay members to the Superior Council of Magistracy contrary to European standards and Venice Commission recommendations.

Through the clear outcome of the early parliamentary elections, the people of Moldova demonstrated their commitment to democracy and the rule of law. They have given a clear and strong mandate to the Party of Action and Solidarity to start implementing the ambitious agenda of President Maia Sandu on anti-corruption, improved justice system and fighting poverty.

The EU support will remain closely linked to satisfactory progress on reforms and the respect of the rule of law, effective democratic mechanisms and human rights. It will be important to implement the Economic Recovery Plan as part of the broader regional vision of the Economic and Investment Plan and the five Flagships Initiatives for Moldova. The EU will continue to engage with Moldovan authorities to improve institutional arrangements and build adequate capacity on national/regional/local levels, to further enhance the participation of Moldova in the relevant EU programmes and EU Territorial Cooperation programmes, as well as provide support to the drivers of change (civil society and SMEs), bringing tangible benefits to the people of Moldova.

The EU will continue intensive strategic communication in order to counter disinformation, as well as to inform Moldovan citizens about the EU, EU-Moldova relations, and the tangible benefits for the people of Moldova brought about by EU assistance. The EU is also ready to provide support to the Moldovan Government in order to improve its own strategic communication and to raise the awareness about the necessary reforms.