



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 12.5.2004  
SEC(2004) 567

**COMMISSION STAFF WORKING PAPER**

**European Neighbourhood Policy**

**Country Report**

**Moldova**

{COM(2004)373 final}

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## **1. INTRODUCTION**

### **1.1. The European Neighbourhood Policy**

On 1 May 2004, the enlargement of the European Union took place with the accession of ten new Member States. It has brought changes to the EU's political geography offering new opportunities to deepen existing relations between the Union and its neighbours to the East and to the South. The Union is determined to further develop partnerships with its neighbours to mutual benefit, promoting security as well as stability and prosperity. The EU's external borders will not become new dividing lines but the focus of enhanced co-operation.

The European Neighbourhood Policy sets ambitious objectives for partnership with neighbouring countries based on strong commitments to shared values and political, economic and institutional reforms. Partner countries are invited to enter into closer political, economic and cultural relations with the EU, to enhance cross border co-operation and to share responsibility in conflict prevention and resolution. The Union offers the prospect of a stake in its Internal Market and of further economic integration. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The policy builds upon and reinforces the existing framework of co-operation.

In the present report, the Commission provides an assessment of bilateral relations between the Union and Moldova. The report reflects progress under the Partnership and Co-operation Agreement, and describes the current situation in selected areas of particular interest for this partnership: the development of political institutions based on the values – democracy, the rule of law, human rights - underlined in the Agreement, regional stability and co-operation in justice and home affairs, and economic and social reforms that will create new opportunities for development and modernisation, for further liberalisation of trade and for gradual participation in the Internal Market. The report provides guidance for the preparation of joint action plans, and may also serve as a basis for assessing future progress in the Union's relations with Moldova.

### **1.2. Relations between the European Union and Moldova - The existing contractual framework under the Partnership Agreement**

The **Partnership and Cooperation Agreement (PCA)**, which forms the legal basis of EU-Moldova relations, was signed in November 1994 and entered into force in July 1998. It covers a wide range of areas including political dialogue, trade and investment, economic co-operation, legislative approximation, culture and science. The parties recall the common values that they share, and state their commitment to promote international peace and security as well as the peaceful settlement of disputes, and agree that respect for democratic principles and human rights as well as for the principles of market economy underpin their internal and external policies and constitute an essential element of partnership and the Agreement.

The parties accord to one another Most Favoured Nation (MFN) treatment and limit the possibility of imposing restrictions on imports and exports. The PCA also provides that upon further progress of market oriented economic reforms in Moldova the possibility of beginning negotiations on the establishment of a free trade area will be considered. The

conclusions of a joint study on the effects of a FTA in 1999 suggest postponing the introduction of the FTA until regulatory, administrative and economic conditions would allow Moldova to fully benefit from its establishment.

The various joint institutions and working structures, notably those set up under the PCA, including the Parliamentary Co-operation Committee, have been functioning smoothly.

Since 1991, the EU has provided **assistance** to Moldova totalling €253 million. This comprises technical assistance under the **TACIS** programme, including for cross-border co-operation, macro-financial aid through balance of payments loans and grants, assistance through the Food Security Programme, and humanitarian assistance.

**Community assistance** to Moldova (in million €) has developed as follows since 1991:

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002/03	Total
<i>Tacis Action Programme</i>	1,0	9,0*		10,0	9,0	13,1*		14,7*		14,8 + 1,5Res		25,0*	98,1
<i>Small Projects programme</i>						4,9		4,8		4,7			14,4
<i>Cross-border Cooperation Programme</i>						2,0	2,7	1,3	0,7	4,0	3	3,7	17,4
<i>Macro-Financial assistance</i>		27,0**		25,0	20,0	15,0						15,0	102,0
<i>Food Security Programme</i>										5,5		10,4	15,9
<i>Humanitarian Assistance</i>									3,9	0,8	0,88		5,5
<b>Total</b>	<b>1,0</b>	<b>36,0</b>	<b>0</b>	<b>35,0</b>	<b>29,0</b>	<b>35,0</b>	<b>2,7</b>	<b>20,8</b>	<b>4,6</b>	<b>31,3</b>	<b>3,8</b>	<b>54,1</b>	<b>253,3</b>

*European Commission, 27.11.2002*

\* Financial planning is biannual

\*\* Grant

The 2003 TACIS action programme for Moldova (€ 25 million) concentrates on the following areas: institutional, legal and administrative support, promotion of private sector development, and addressing the social consequences of transition. In addition, the TACIS regional programmes cover: cross border cooperation, justice and home affairs, customs and border infrastructures, energy and environment. A new National Indicative Programme is currently being developed for 2004-2005.

A grant of €15 million has been allocated to Moldova for **macro-financial assistance**, which is to complement IMF and World Bank programmes. However, negotiations for its implementation have been suspended due to lack of progress in reforms and absence of respective agreements of Moldova with the IMF and the World Bank. These will be resumed as soon as a new IMF-supported programme is in place (*see also 3.2.5. Relations with the IFIs and other donors*).

The **Food Security Programme** (FSP) is designed to address poverty and to improve food security, including measures in the agriculture sector, land and social reform, and public finance management. A new Commission decision is currently under preparation for the programmes FSP 2004-5. The FSP is a budgetary support programme conditional upon the implementation of an IMF programme. Since the Moldovan IMF programme

went off-track in spring 2003, budgetary support has been halted. However, the technical assistance component of the programme has continued, and progress continues to be made on reforms.

Moldova has been allocated support under the European Initiative for Democracy and Human Rights (EIDHR) in the context of regional projects in the years 2002-04. EIDHR supports civil society initiatives that aim to promote democracy and human rights.

The current TACIS cross-border co-operation (CBC) programme (2004-2006) reflects directly the objectives of the Neighbourhood Policy: to allow partners on both sides of the EU's external border jointly to address common challenges such as economic and social development of the border areas, environment and communicable diseases, illegal immigration and trafficking, efficient border management, and people-to-people contacts. The Neighbourhood Programmes (2004-2006) are based on the existing funding instruments, TACIS CBC, INTERREG and Phare CBC. Two neighbourhood Programmes will involve Moldova: a cross-border programme with Romania and the Regional/Transnational CADSES programme. The budget foreseen for Moldova is €10 million (TACIS CBC) over the period 2004-2006. For the period beyond 2006, the Commission is examining the possibilities of creating a new Neighbourhood Instrument to act on both sides of the EU's external border.

Moldova participates in the YOUTH programme which promotes people-to-people contacts and co-operation between actors of civil society, such as associations and NGOs in the youth field. Regarding higher education, Moldova is eligible for participation in the Community programmes Tempus and Erasmus Mundus.

In November 2003, the Council decided that - in addition to the €100 million available under the existing **European Investment Bank** Northern Dimension Council Decision 2001/777/EC - an amount of €500 million will be foreseen for EIB lending to Ukraine, Russia, Moldova and Belarus, in areas of EIB comparative advantage (i.e. environment, transport, telecommunications, and energy infrastructure on priority Trans European Network corridors with a cross-border aspect for an EU Member State). This extended mandate will be subject to certain political and macro-economic conditions.

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After Romania's accession to the EU, foreseen for the year 2007, Moldova will become an immediate neighbour of the EU. At the EU Moldova Cooperation Council of 24 February 2004 both parties agreed that the **European Neighbourhood Policy** offers an ambitious and realistic framework for strengthening their relationship, allowing Moldova to benefit fully from EU enlargement.

In September 2003 Moldova presented a *Concept for the Integration of the Republic of Moldova into the European Union*, of which the EU took note, also in view of preparations for a possible joint Action Plan under the European Neighbourhood Policy. In the *Concept*, Moldova welcomed the European Neighbourhood Policy, while at the same time expressing the wish to be included in the Stabilisation and Association Process covering the countries of the Western Balkans. The EU considers that the European Neighbourhood Policy, which should be seen as distinct from the question of possible EU accession that is regulated by article 49 of the Treaty on European Union, provides the most appropriate framework for the partnership. In March 2004, Moldova recognised the importance of the Neighbourhood Policy for Moldova's internal reform process and as a way to come closer to the EU.

## 2. POLITICAL ISSUES

### 2.1. Democracy and the rule of law

Moldova proclaimed its independence in 1991. The **Moldovan constitution** was approved in 1994 and subsequently modified by the Moldovan Parliament in 2000. The legislative power lies with the **Parliament**, which consists of one chamber of 101 deputies elected for a four year term.

The President of the Republic is elected by Parliament for a four year mandate. The Prime Minister is designated by the President, upon consultation with Parliament. Within 15 days from designation, the Prime Minister-designate must request a vote of confidence from the Parliament regarding his/her work programme and cabinet.

In the last parliamentary elections, which took place in early 2001, the Communist Party of Moldova (CPM) obtained a constitutional majority of 71 seats. The other two parliamentary fractions are the Alliance "Moldova Noastra" (formed by various social democratic and centrist parties, 19 seats) and the Christian Democrats (11 seats). The Parliament elected the leader of the Communist Party of Moldova, Vladimir Voronin, as President and confirmed the government led by Prime Minister Vasily Tarlev.

Local elections took place in 2003 (2002 in the autonomous region of Gagauzia). The next parliamentary elections are scheduled for spring 2005.

Moldova's legal framework provides a basis for **democratic elections**, although some modification and clarification of current legislation is still ongoing. The OSCE observed the 2001 parliamentary elections and recent local elections. It assessed them as free and fair. In the past few years, however, the OSCE and Council of Europe (CoE) have expressed increasing concerns about the practical implementation of basic democratic principles in Moldova. The OSCE observers monitoring the 2003 local elections, while concluding that the elections were well-administered and generally in line with international standards, raised concerns in particular about the secrecy of the vote, reported intimidation of opposition candidates, the incomplete separation of party and government - including reports of misuse of public resources for campaign purposes - and about the clear bias in favour of the incumbent authorities on the State Television Channel.

A law on political parties and socio-political organisations was recently passed and is currently being examined by the Council of Europe. An earlier draft was assessed by the CoE as having a number of shortcomings, in particular with respect to the provisions on registration and on suspension of political parties. The Council of Europe has also noted problems with the law regulating the status of parliamentarians and their immunities.

**Local government** reforms, which entered into force in March 2003, strengthened the central government and reduced local governments' powers. Amendments to the law on Public Local Administration reduced the financial autonomy of local administrations, and provided for the reorganisation of the territorial units, replacing 10 entities (judets) with 31 smaller territorial districts (raions).

According to the judicial reform which started in 1995, the **judicial system** in Moldova comprises the Supreme Court of Justice, courts of appeal, and courts of first instance as well as a system of economic courts including an Economic Court of Appeal. Moldova (excluding Transnistria) has 463 judges, and around 1000 prosecutors. The General

Prosecutor is appointed for a five-year term by the Parliament and is procedurally independent from both the Ministry of Justice and the Ministry of Internal Affairs.

Both the Constitution and the Law on the Court System stipulate that the judicial system is independent from the executive and the legislative powers. Judges are appointed by the President of the Republic on the proposal from the Superior Council of the Magistracy, except judges of the Supreme Court of Justice, who are appointed by the Parliament. They are appointed for life following an initial 5-year appointment. The issue of the independence of judges, in relation to appointment and dismissal, is currently under debate. A petition by 30 dismissed judges was submitted to the European Court of Human Rights at the end of 2002. Judges reportedly remain vulnerable to external pressure and corruption.

The Moldovan government recognises that the reform of the judiciary remains a priority, most importantly the strengthening of judicial power, in particular the independence of judges and prosecutors, the enforcement of court decisions, training of personnel, ensuring access to justice and streamlining cooperation among the different branches. Training of judges has been one of the key areas covered in the EC -Council of Europe joint programme in support of Moldova's Presidency of the Council of Europe, which it held from May to November 2003.

In June 2002, the Ministry of Justice and the Council of Europe signed an Action Plan in the field of judicial and legal reform in Moldova. In the context of this legislative reform, a new **Criminal Code**, a Code on Criminal procedure, a new Civil Code and a new Code on Civil Procedure have been introduced.

After independence, Moldova faced the dual challenge of building its own **public administration**, while transforming the local branches of the Soviet administration into structures adapted to the requirements of a democratic society and a market economy. The Moldovan government recognises that the task has only partially been fulfilled: the institutional capacity in the public sector remains weak and government institutions are not able to perform efficiently due to inconsistencies in their functional and institutional frameworks; methods of selection and promotion need to be improved.

The 2003 Transparency International (TI) report on **corruption** in the world ranks Moldova in place 100. Public opinion polls rank corruption as the second most pressing problem in Moldova after poverty. In 2003, the Council of Europe Group of States Against Corruption (GRECO) concluded that "the Republic of Moldova is without any doubt one of the countries deeply affected by corruption".

Among causes cited for the high corruption level in Moldova are an unsatisfactory level of public awareness, low ethical and professional level of public functionaries, insufficient prevention, lack of efficiency of the judiciary system and insufficient political willingness to step up the fight against corruption. Other analysts also quote poverty and the poor performance of governmental agencies, such as the fiscal inspectorate.

Moldova is in the process of strengthening its regulatory framework aiming at combating corruption and organised crime both domestically and at international level. It has signed but not yet ratified the Council of Europe's Criminal and Civil Law Conventions against corruption and is engaged in initiatives such as the Council of Europe of States against Corruption (GRECO group), as well as in the Stability Pact Initiatives against corruption and against Organised Crime.

The Moldovan Parliament approved in April 2001 the Government programme 2001-2005 to fight Organised Crime, Corruption and Protectionism with its main focus on fighting corruption through a reinforced legal framework and a more transparent financial environment. The implementation of the measures in the programme for 1999-2002 is ongoing. New Criminal and Criminal Procedure Codes have been enacted and a Centre for fight against economic crimes has been established. In May 2001, the government established a Coordination Council to fight corruption. Other reforms seem to be slowed down by limited financial resources. Areas of particular sensitivity for anti-corruption efforts include public procurement, police, customs and health services.

## **2.2. Human rights and fundamental freedoms**

Moldova has ratified most of the international **Human Rights** instruments. It is a member of the Council of Europe, and under observation within this organisation. Before taking over the chairmanship of the Ministerial Committee of the Council of Europe in May 2003, Moldova expressed its intention to contribute to the respect of democratic values and Council of Europe norms in all member states by setting an example of fulfilling its own commitments. Thus, 12 Treaties and Protocols of the Council of Europe were ratified by Moldova in the year preceding its chairmanship. However, the Council of Europe noted problems in the implementation of the judgements of the European Court of Human Rights.

At the end of 2003 Moldova adopted a National Action Plan for the promotion of Human Rights. The document, developed in collaboration with the United Nations Development Programme (UNDP), and subsequently approved by the Moldovan Parliament, contains recommendations and identifies practical steps on how to improve the situation. The EU and the CoE have also undertaken joint programmes to promote Human Rights and the rule of law in Moldova.

Moldova has ratified the core UN human rights conventions, except the two Optional protocols to the International Covenant on Civil and Political Rights and the Optional Protocol to the Convention against Torture.

It has ratified all ILO fundamental conventions (forced labour, freedom of associations, collective bargaining, child labour and discrimination in employment).

Overall, Moldovan legislation provides a relatively favourable environment for the development of **civil society**. Since independence, the number of NGOs has grown to reach more than 2700 registered NGOs in 2001. However, according to the OSCE, recent amendments to the Law on Political Parties and Socio-Political Organisations may negatively affect the **freedom of association** and data protection. In particular, the requirement to give a 15-days advance notice of proposed assemblies to the relevant authorities has been considered a restriction on the freedom of assembly by the UN Human Rights Committee. Similar questions were also raised by the Secretary-General of the Council of Europe on freedom of expression, assembly and association.

Moldova has an active and independent **media**. However, recent legislation and drafts (the 2003 amendments to the Law on Access to Information and a recent draft law on the restructuring of the public broadcaster) have raised concern notably on the independence of journalists. In March 2004, the OSCE and the Council of Europe jointly issued a recommendation on how the public broadcaster should be structured.



A number of recent developments have underlined these concerns: problems with registration for two local radios, a statement by the chairman of Teleradio Moldova about the reported imposition by the Board of guarantors of the programme “the hour of the government” and his subsequent dismissal, and high fines imposed on local newspapers and opposition leaders for slander. These developments have been highlighted as issues of concern by OSCE and CoE.

Moldova has joined the main international instruments on the **rights of the child**, and in particular the International Convention on Children's Rights. In 2002 Moldova initiated the procedure of joining the Protocol on the Sale of Children, Child Prostitution and Child Pornography to the said Convention. The UN Committee on Children's Rights in its Recommendations of October 2002 expressed general appreciation for the relevant legislative framework, but pointed to the need for further improvements and to secure implementation and adequate financing. The new Criminal Code, which entered into force in June 2003, aims to increase the level of child protection, containing provisions specifically regarding the worst forms of child labour. Official statistics from 2001 indicate that there are approximately institutionalized 13,500 children in orphanages, while NGOs estimate that up to 30,000 children are in institutions or foster homes.

With regards to the rights of persons belonging to **national minorities**, Moldova ratified in 1996 the Council of Europe Framework Convention for the Protection of National Minorities. Legislation in Moldova attributes a special status to the Russian language of interethnic communications). Furthermore, in areas where the Ukrainian, Russian and Bulgarian population or other ethnic minorities form a significant part of the population, it allows the use of minority languages in the public administration, as well as in the drafting of official acts. The law guarantees the right for pre-school, general, vocational, and higher education in Moldovan and in Russian, at the same time providing the possibility for members of other minorities to enjoy the right to education in their own language. However, according to the UN Human Rights Committee effective implementation is lacking. Concerns have also been raised about the situation of the Roma and the Gagauz communities that continue to face discrimination, mostly in rural areas.

Religious freedom is protected by law and generally respected. However, the law on **religious denominations** passed in July 2002 contained several aspects, which, according to the Council of Europe, could raise problems regarding its compatibility with the requirements of the European Convention on Human Rights. Modifications were subsequently introduced in a new draft which takes into account part of the comments made by the experts of the Council of Europe.

Moldova abolished the **death penalty** in 1997, when it ratified Protocol 6 to the European Convention on Human Rights.

Although improvement has been noted in detention conditions, serious shortcomings are still to be found. A UN Human Rights Committee report in July 2002 stated that the detention facilities do not comply with international standards. A delegation of the Council of Europe Committee for the Prevention of Torture (CPT) that visited the country in 2001 received widespread allegations of physical **ill-treatment** of prisoners, mainly during interrogations. In many cases the CPT delegation found that these treatments amounted to **torture**. Prisoners are short of food and water and have very limited access to health care. The absence of specialised juvenile justice and detention institutions means that juvenile offenders are kept together with adults, in particular during investigation. This exposes them to violence and cruel treatment.

Moldova has signed but not ratified the **Rome statute** for the establishment of an **International Criminal Court**.

The principle of equal rights for women and men is enshrined in the Constitution, however, there is no specific domestic law addressing non-discrimination between women and men. A study on Women's status in Moldova conducted by the UNDP in 1998 shows the emergence of an increase **gender** divide in recent years. The study points to a reduced involvement of women inside the administration and higher educational institutions. Women are increasingly subject to violence, both within the family and outside, and are victims of trafficking by organised crime.

Constitution and Moldovan law provide for the right to establish or join **trade unions**. There are two unions- the Trade Union Confederation of Moldova (TUCM) and "Solidaritate" (Solidarity). The TUCM has approximately 80% of all union members.

### **2.3. Transnistria**

Transnistria, a separatist region on the eastern Moldovan border, fought a short war with Moldova in 1992. After the establishment of a ceasefire, the two sides have been facing each other along a separation line guarded by a peace keeping force consisting of Russian troops and troops from the two sides. The self proclaimed "Transdnestrian Moldovan Republic" is not internationally recognised.

Transnistria consists of a narrow strip of land of roughly 200 kilometres on the eastern border of Moldova, almost entirely contained between the Ukrainian border and the river Nistru. It has a territory of 3,567 square kilometres (an estimated 11% of the territory of Moldova), and a population of some 600,000. Ethnic Moldovans constitute roughly 40% of the population, the remaining 60% being mainly ethnic Ukrainians and Russians. The "official" languages are Russian, Moldovan, and Ukrainian. The region produces steel, mechanical and electric equipment, electric energy, furniture, textiles, footwear, wine and brandy. Reportedly, there are several arms-producing factories in Transnistria.

According to the OSCE, the **human rights situation** in the separatist region is unsatisfactory. Right of minorities, in particular language rights, are not respected. A small group of schools in Moldovan language operate thanks to the efforts of the OSCE. Freedom of speech and diversity of opinion have been continuously under attack. So have associations and political parties that were not fully in line with the view of the ruling group. Transnistria is also frequently cited as a hub for all kinds of **illicit trafficking** such as smuggling in arms, human beings, drugs.

Since 1993, the **OSCE has been active in trying to broker a settlement of the Transnistrian conflict**, together with the Russian Federation and Ukraine, as the other two formal co-mediators. The EU has stepped up its political engagement towards conflict resolution over past years and remains strongly committed to assisting this process. The EU recognises that a solution to this conflict is key to enabling the country to develop into a stable and secure neighbour of the Union. In 2003 a *Joint Constitutional Commission* (JCC) was established by the two parties, but progress in its work has been very slow. The EU is contributing expert advice as an observer to the JCC.

In 2003 the EU and the US introduced a **visa ban** against leading members of the separatist regime for the period of one year, on the ground of their obstructing progress towards a political settlement of the conflict. The EU renewed this ban in February 2004.

The Transnistrian **conflict has taken a toll also in economic terms**. Most of the industrial structure of Moldova is located in Transnistria, together with important power plants. The disruption of trade links had a negative effect on both sides, deepened in Moldova by the negative effect of a shortfall in revenues and customs duties accruing to the national budget. The set of measures and counter measures taken by the two sides has deepened the negative impact. The Transnistrian region has accumulated considerable foreign debt in particular to the Russian gas producer Gazprom, which could exacerbate Moldova's debt problems.

A key element in any effort to achieve a settlement relates to ensuring **Moldova's control over its entire customs territory**. The Commission fostered in March 2003 a joint technical meeting between Moldova and Ukraine on the issue. In May 2003, Ukraine and Moldova reached an important agreement on customs stamps, whereby Ukraine recognises only the new Moldovan customs stamps (which are only issued by Chisinau). This increases Moldova's control over exports originating from Transnistria. The Commission convened a second meeting in January 2004. Moldova and Ukraine reported progress made, in particular on the demarcation of the border, and on joint border controls outside the Transnistrian section of the common border.

**Russian ammunition** (estimated at 42,000 tons before 2003), equipment and troops are stationed in Transnistria. In accordance with Russia's commitment at the OSCE Istanbul summit in 1999, the withdrawal was to be completed by the end of 2002. At the OSCE Ministerial meeting in Porto this deadline was extended until the end of 2003. After good progress in the first half of 2003 (some 35% of all ammunition left Transnistria), withdrawal continued at an overall insufficient pace and Russia did not meet the deadline. The EU continues to stress its expectations that Russia withdraw without further delay.

#### **2.4. Regional and global stability**

Moldova is member of the United Nations, the International Monetary Fund, the World Bank, the World Trade Organisation (WTO) and the European Bank for Reconstruction and Development (EBRD). Moldova is also member of the Council of Europe and of the Organisation for Security and Co-operation in Europe. The OSCE is represented in Moldova with a permanent mission and it is particularly engaged on the issue of a settlement in Transnistria. The Council of Europe is represented by a special representative of the Secretary General.

Moldova is also part of numerous regional organisations, including the Community of Independent States (CIS), the Central European Initiative and the Black Sea Economic Co-operation. In 2001 it joined the Stability Pact for Southeast Europe as a beneficiary state. It also participates as an observer in the initiative for the creation of a Regional Energy Market in South East Europe.

Moldova has acceded to the Treaty on the **Non-Proliferation** of Nuclear Weapons. It has not signed the third Protocol of the Convention on the illicit manufacturing and trafficking of firearms.

Moldova is committed to **fight terrorism** within the international framework and is in the process of adjusting its domestic anti-terrorism legislation.

## 2.5. Justice and Home Affairs

Due to its economic situation and geographical location, Moldova has emerged as a major country of origin and transit for **trafficking in women and children**.<sup>1</sup> In September 2003, the National Committee on Anti-trafficking became operational.

In 2001 the government established a State Migration Service. At the same time, trafficking in human beings became criminally punishable and the government approved the National Action Plan for combating trafficking in human beings. In 2002 a Directorate for Combating Trafficking in Human Beings was set up within the Ministry of Internal Affairs. Two new Laws on “Trafficking in Human Beings” and “Trafficking in Children” were approved in the same year.

Moldova has readmission agreements in force with Poland, Hungary and Romania, and will begin implementing similar agreements with Ukraine, Lithuania and Italy.

Moldova has ratified the UN Convention relating to the status of refugees and its 1967 Protocol. In 2002, it passed a law on the status of refugee in line with international standards. Applications are examined by a special Commission under the President of the Republic and its decision can be appealed against in court.

The Border Guard Troops Department is responsible for protection of the **borders** of Moldova and functions as a Border Police. The Border Guards collaborate closely with the Ministry of Internal Affairs and the General Prosecutor’s Office by gathering and exchanging information related to border crossings concerning traffickers and victims. The Border Guards also assist the Counter Trafficking Directorate of the Minister of Internal Affairs by performing investigation activities at border check points. Moreover, they work with the IOM when it receives repatriated traffic victims at its checkpoints.

Moldova has signed (in 2000) but not yet ratified the UN Convention against Transnational Organised Crime (Palermo Convention) and its protocols on smuggling of migrants and Trafficking in persons. The European Convention on Extradition was ratified in 1997 but Moldova reserves the right not to extradite its own citizens. The European Convention on Mutual Assistance in Criminal Matters has been ratified by Moldova and entered into force in May 1998. A special factor affecting the fight against corruption is the de facto secession of Transnistria, which prevents Moldovan authorities from prosecuting criminal activity across the Nistru.

The government of Moldova recognises the threats of increasing drug abuse and trafficking in the country and adopted an Action Plan for the years 2003-2004 to fight against drug consumption and **drug trafficking**. Main priorities include the reduction of the demand for narcotics through preventive measures; fighting cultivation of plants with narcotics substances; fighting illicit traffic and ensuring efficient control over legal circulation of narcotics; and international cooperation. However, there is room for improvement when it comes to coordination and cooperation among law enforcement agencies, training of staff and provision of necessary technical equipment.

In November 2001 the Moldovan Parliament approved the Law on prevention of, and fight against, **money laundering**. Moldova has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime

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<sup>1</sup> The International Organization for Migration (IOM) report

which is in force since September 2002. Also in 2002, a Centre for fighting economic crimes and corruption was set up. Moldova is member of the Moneyval Committee which groups members of the Council of Europe which are not members of the OECD Financial Action Task Force-FATF. In March 2003 the new Criminal Code was adopted, making money laundering a criminal offence. Nevertheless, Moldova still does not meet a number of the fundamental international standards such as the FATF recommendations, including on the establishment of a financial intelligence unit.

Moldova is party to a number of bilateral Treaties with CIS countries on mutual assistance in criminal matters, as well as to a trilateral Agreement between Moldova-Ukraine-Romania on the fight against organised crime in the border regions.

### **3. ECONOMIC AND SOCIAL SITUATION**

#### **3.1. Macroeconomic and social outlook**

##### *3.1.1. Economic developments*

Moldova's transition to market economy was marked by a particularly deep and prolonged recession. Economic growth resumed in 2000, but output is still less than half of what it was in 1989. As a result, the country's per capita real GNI is the lowest in Europe (US\$1560 in purchasing power parity, 2002) and there is a high incidence of poverty. The World Bank classifies Moldova as a low-income country.

During the 1990s, Moldova's economic structure changed significantly. The agricultural sector shrank to 26% of GDP in 2001, down from 43% in 1991. The industrial sector's share also declined markedly and now supplies 24% of GDP (from 33% in 1991). The services sector share grew to reach 50% of GDP. The latter sector was also the only one to exhibit positive, though limited, growth over the 1991-2000 decade.

Moldovan GDP has been in an upswing since 2000. Growth accelerated in 2001 and 2002 (6.1% and 7.2%). GDP is expected to increase by around 6% in 2003.

Remittances from Moldovans abroad have been the main driver of economic growth over 2000-2003, fuelling a strong and persistent increase in household consumption and exports. The inflow of transfers has grown steadily, from 8% of GDP in 1999 to an estimated 19% in 2003. Buoyant remittances have allowed the economy to sustain a substantial negative gap between exports and imports; despite double-digit average export growth, the trade and services deficit nearly tripled between 1999 and 2003.

Investment spending has performed unevenly in the period under consideration. Fixed capital formation has lagged behind GDP growth and the investment share has dropped from 18.4% of GDP to 16.6% (1999-2002).

##### *3.1.2. Fiscal management, monetary and exchange policy*

Moldova's public **finance management** is constrained by a large debt, which the country has been unable to service. From 1995 to 1997, the deficit rose from 6.8% to 10.2% of GDP. The government relied heavily on external borrowing, which amounted to an annual average of 6.5% of GDP. In 1998 and 1999, the Russian financial crisis led to a sharp contraction in exports and to a severe depreciation of the currency vis-à-vis the US\$, boosting the debt-to-GDP ratio to almost 80%. By 1999, debt service due amounted to more than four-fifths of central government revenue. Moldova's debt exposure is

primarily towards multilateral creditors (in particular towards World Bank, IMF, EBRD), and largely on concessional terms; Russia and other Paris Club members also count as significant creditors. In addition, Moldova has a large exposure - about half the level of government debt - to Gazprom, Russia's gas export monopoly.

**Fiscal policy** tightened considerably in the last years of the 1990s, and by 2001 the large fiscal deficit had turned into a surplus. Expenditure cuts were distributed across all spending categories. In particular, between 1997 and 2001, social expenditure was cut drastically. Spending on education and health nearly halved, while spending on social protection as a share of GDP declined by close to 40% (although a marked increase took place in 2002). Capital expenditure, too, was more than halved. At the same time, a sharp reduction in fiscal revenues in the period under consideration affected most income categories. The government planned to raise financial resources from privatisation, but the proceeds have so far fallen short of expectations.

Since 2002 Moldova experienced difficulties with debt servicing, including on its Eurobond. The fiscal situation remains serious. Projections for 2004 show an ongoing financing gap. A tight fiscal stance, IFI support, as well as securing preferential debt terms, will all remain necessary to re-establish macroeconomic stability.

During the 1990s, the National Bank of Moldova (NBM) managed to gradually reduce inflation levels and stabilise the **exchange rate** (although the 1998 Russian crisis temporarily led to a marked nominal depreciation of the Leu and to a spike in inflation). The situation deteriorated in 2003 when the CPI increase reached 15.7% year-on-year.

### *3.1.3. External situation*

Moldova's current account has persistently shown large deficits. The deficit grew in 1998 to around 20% of GDP. It was subsequently reduced but started to grow again in 2002 owing to a strong import demand. Exports and workers' remittances, however, have offset to some extent the negative effect of imports' growth on the balance of payments.

### *3.1.4. Social situation and Human Development Policies*

The **labour market** situation deteriorated noticeably in Moldova during the 1990s, in line with the poor GDP performance. In the wake of the Russian crisis of August 1998 employment dropped by 18.2% year-on-year. Positive employment growth only reappeared in 2003. A gradual improvement in unemployment has been recorded, its rate falling from 11.1% at end 1999 to around 8.7% at the end of 2003.

There has been an increasing **outflow of the Moldovan work force**. Though estimates for the number of Moldovans working abroad (mostly in Russia, South East Europe and the EU) vary widely, some sources put the outflow at 30% of the entire work force.

The Government is responsible for the elaboration and implementation of national standards of **education**. They form the basis of the educational system and provide a platform for the recognition of national Diplomas and Certificates.

To make the educational system more effective and to create a market of educational services a national system for academic evaluation and accreditation of educational institutions has been developed. Certain qualitative and quantitative changes in the structure and content have taken place, mainly since the adoption of the Law on Education in 1995. The higher education system comprises 46 universities, including 14

public universities subordinated to the Ministry of Education and some other sector Ministries, and 32 private universities. Short-term higher education is provided by 67 Colleges, including 43 public and 24 private colleges. In the year 2000 the process of accreditation started. This is to contribute to enhancing the quality of education in universities. The Diploma issued by accredited universities and colleges will be recognised by countries that signed the Lisbon Convention in 1997.

Moldova has seen its basic school enrolment rate increase in recent years, from 79% in 1995 to 94% in 2001, despite the fact that it is a poor country, and despite severe cuts in expenditures on education. The current severe budgetary constraints do not allow much margin of manoeuvre in the educational sector.

**Poverty** is an acute problem. As a result of the long 1990s recession, large swathes of the population have been impoverished, particularly in rural areas, where the incidence of food poverty is 60% higher than in urban areas. The consequences are reduced intake of calories, increasing child mortality, declining access to basic education, and an increase in human trafficking. There are signs that the improving economic situation since 2001 has begun alleviating poverty, but in 2002 over 40% of the Moldovan population lived under the absolute poverty line. An Enhanced Growth-Poverty Reduction Strategy Paper (EG-PRSP) for 2004-2006 is in the final stages of preparation.

## **3.2. Structural reform and progress toward a functioning and competitive market economy**

### *3.2.1. State involvement in the economy and privatisation*

Despite a good start in the early 1990s and positive subsequent results in some areas (e.g. accession to the WTO in 2001), Moldova's achievements in structural reform and the creation of a fully functional market economy remain partial. Since 2000 reform has slowed noticeably due to increasing political demands for state intervention in the economy. New regulations do not always present a coherent and consistent underlying strategy. Moreover, regulations are often ignored or circumvented. Widespread corruption further complicates the situation.

**State involvement** in the economy is still extensive, the private sector answering for only 50% of GDP (in 2002). No progress is visible since 1998, highlighting the difficulties encountered by both large and small scale **privatisation**. Several important asset sales – e.g. that of the telecoms company Moldtelecom - failed or were postponed. A crucial element in the failure of the privatisation programme to reach planned sales volumes was the lack of interest of international investors, also due to alleged discrimination by Moldovan authorities. Heavy administrative procedures are an additional aspect of excessive state involvement in the economy.

Moldova rates poorly in terms of corporate governance and enterprise restructuring. According to an EBRD indicator, Moldova's rating in this category is among the 4 lowest of 27 transition countries, and has regressed in 2003. Privatisation and enterprise restructuring have made significant progress in the agricultural sector, despite some setbacks. The share of privately operating farms has been growing strongly.

The country depends to a large extent on FDI to complete the privatisation process and to finance enterprise restructuring.

### 3.2.2. *Regulatory framework and private sector development*

**Price and trade liberalisation** is the area where Moldova has probably made the most progress. In 1992, most prices were liberalised the state trading monopoly was abolished and the exchange rate was unified. The following year, most quantitative restrictions on exports were abolished. Full current account convertibility was established in 1995 and tariffs on imports were reduced. Nonetheless, Moldova is still the transition country with the highest – although decreasing - number of restricted goods (according to the EBRD), while administrative barriers to trade and the refusal of the Moldovan government to set up of pre-shipment inspections and a series of export restrictions were the main reasons cited for the suspension of the IMF programme in December 2002.

Moldova has had basic **competition** legislation in place since 1992. The current legal framework is set out in the Law on the Protection of Competition of 2000, which prohibits abuse of dominance, anti-competitive agreements, as well as action by public administration authorities which limit competition. Mergers are governed by the 1992 Law on Enterprises and Entrepreneurship and a 1993 Government Decision setting up a notification procedure. State and natural monopolies are regulated by a Government Decision of 1995.

The Law of 2000 provides for the creation of an independent National Agency for the Protection of Competition. However, the new Agency remains to be set up. In the meantime, the Antimonopoly Department of the Ministry of Economy is continuing in the role of national competition authority, within the more restricted scope of the previous legislation.

### 3.2.3. *Financial sector*

The stability-oriented policy of the National Bank of Moldova has supported the growth of the **banking system**. Several regulatory measures concerning banks' capital adequacy were approved over the past two years. The bank capital adequacy rate has been set at 12% and a deposit insurance system has been introduced. These measures, accompanied by macroeconomic stability achieved during last few years, increased the stability of the banking system.

The banks' balance sheets have improved, as the share of non-performing loans steadily declined from 45.5% in 1996 to 7.6% in 2002. Ten out of the country's 16 banks are foreign-owned, and the foreign investors have brought in valuable managerial expertise. There has also been some consolidation in the banking sector. Intermediation, although still low, has been rising; credit to the private sector has grown from 5.8% of GDP in 1995 to 18.7% in 2002. However, in a context of extensive state intervention in the economy, the asset share pertaining to state-owned banks is growing, from virtually zero in 1998 to 13.4% in 2002. As a result, lending from a public bank might be politically directed to support ailing enterprises.

The Moldovan **insurance** sector is governed by a general framework Law on Insurance of 1993, which has been amended several times. Currently, the Parliament is considering amendments to the law in order to increase the minimum capital required of insurance companies and to repeal the existing prohibition for foreign companies to own more than 49% of shares of a local insurance company.

The **capital and securities markets** are underdeveloped. Nevertheless, gradual progress is visible. The securities market is regulated by a 1998 law. In January 2003, the



Government adopted the Concept of Corporate Governance of Enterprises. In order to improve corporate governance, the concept stresses, i.a., the need to develop the securities market as well as to improve the legal framework in the area. The Government intends to initiate amendments to the laws on securities market, the National Commission for Securities Market, and on Joint Stock companies.

#### *3.2.4. Sustainable Development*

Moldova has prepared a National Strategy for **sustainable development** to cover the time period until 2020. The Strategy has not been formally adopted, but will be incorporated in the Enhanced Growth - Poverty Reduction Strategy Paper that is currently under preparation.

The Strategy will consist of two parts with short term (2006) and long term goals (2020). For both the short-term and long-term goals, concrete action plans will be developed. The objectives and actions will also be presented with estimated costs and identification of financial sources. Presentation of the Strategy to the Moldovan government is roughly estimated to May 2004.

A National Council for Sustainable Development was established to ensure the co-ordination of the implementation of the National Strategy for sustainable development, but it is not operational. A similar function has instead been established for the new Strategy for economic growth and poverty eradication.

#### *3.2.5. Relations with the IFIs and other donors*

Owing to early successes in liberalisation and structural reform, Moldova obtained access to an IMF Stand-by Agreement facility, usually conceived for middle-income countries. Later on, given the worsening in the economic situation, Moldova was granted access to the concessional IMF Poverty Reduction and Growth Facility (PRGF- USD 80 million) and to a World Bank Structural Adjustment Credit (SAC III - USD 30 million).

However, since 2000 Moldova has gone off track in implementing IFI programmes. In May 2001, suspended disbursement under the PRGF suspended owing to the IMF's concern over some of the policies of the government that had been elected in February of that year. The Facility was then resumed and suspended again in December 2002. The World Bank, too, stopped disbursement of the second tranche of the SAC III loan. The suspension of the IMF programme has also impeded negotiations with the Paris Club on a rescheduling of the country's debt (amounting to around US\$ 200 million).

Outstanding issues with the IFI include the introduction of pre-shipment inspection of goods, removal of both formal and informal restrictions to exports and the adoption of a sustainable fiscal framework.

The EBRD's prime effort in the country is to support private companies with direct investment, or through key local banks, or by extensive use of the Turn Around Management Programme. At the same time, the Bank pays particular attention to the privatisation and post-privatisation support it can offer to the country.

### Moldova - Selected Economic Indicators, 1997-2002

	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP growth (in %)	-5,9	1,6	-6,5	-3,4	2,1	6,1	7,2	6,0
Unemployment rate (ILO definition)	1.5	1.5	1.9	11.2	8.5	7.3	6.8	
CPI inflation (end of year; in %)	15,1	11,1	18,2	43,8	18,5	6,4	4,4	18,0
Broad money (end of year; % change)	15,3	34,1	-8,7	42,6	40,1	36,0	36,0	31,0
Consolidated government balance (% of GDP)	-7	-11,1	-7,4	-6,2	-3,1	-0,1	-1,8	0,4
Current account balance (% of GDP)	-9,8	-14,3	-19,7	-6,0	-9,0	-4,9	-6,1	-8,1
Official net international reserves (end of year)								
In millions of US dollars	314	336,1	139,5	180,5	218,1	229,0	269,0	259,0
In months of imports of G&NFS	3	3,1	1,4	2,2	2,4	2,1	2,1	2,2
Public external debt (% of GDP) (end of year)	45,5	49,1	56,7	71,7	81,6	67,3	64,8	52,5
Debt service (in % of exports of GNFS)					16,4	16,8	14,1	13,9
Exchange rate (dinar/EUR) <sup>1</sup> (end of year)	4,6743	4,6605	8,3226	11,5902	12,3833	13,0909	13,8220	13,2200
Real effective exchange rate (index, 1995=100)	97.85	105.70	107.07	100.31	109.68	106.93	100.24	
Population (thousands)	4.33	4.31	4.30	4.29	4.28	4.28	4.27	

Source: National sources, WB, IMF.

### 3.3. Trade, market and regulatory reform

Moldova became member of the WTO in July 2001. The country is highly **export**-oriented, with exports amounting to 52% of GDP in 2001. Export levels were nearly halved in 1993 from levels reached in Soviet times, as Moldovan staple products were hit by the disappearance of their traditional markets; the subsequent gradual recovery was interrupted by the effects of the Russian financial crisis in 1998. As a result, exports halved again between 1998 and 1999. Moldova's poor export performance in the 1990s contributed to the country's depression.

A high share of exports is directed to Russia and Ukraine. Currently, exports to Russia and Ukraine are showing above-average growth, while the overall ratio of exports to GDP continues to increase. About 60% of total exports are constituted by agricultural produce, most notably wine, which accounts for 1/3 of total exports.

The economy opened up to **imports** of goods and services in the early stage of transition, imports as a proportion of GDP more than doubling, from 34% in 1991 to 73% of GDP in 2001. Imports, too, are relatively concentrated, both in terms of origin and of composition. Imports from the EU constitute 28% of the total, while the shares of

Ukraine and Russia are 23% and 13%, respectively of the total. Romania accounts for 7% of Moldova's imports.

Bilateral trade with the EU is low: €677 million in 2002 (0.03% of total EU trade). The EU is an important trading partner for Moldova. Moldova's main exports to the EU are agricultural and food products, textiles and iron and steel. Its main imports from the EU are machinery and electrical products, agricultural products, textiles and clothing.

Since 2001, Moldova has also made progress in implementation of the trade-related PCA commitments. However, some contentious issues remain, for example standards, informal restrictions on trade, implementation of rules of origin, protection of intellectual property rights. The lack of transparency and corruption are also issues of concern.

The overall Moldavian **balance of trade** has steadily been in deficit over recent years (€535 million in 2002), its balance of trade with the EU is also negative (€199 million in 2002).

Moldova benefits from EU **GSP preferences**, including the GSP social incentive scheme. Preferential imports from Moldova under the GSP have increased, from €77 million in 2000 to €110 million in 2002. Moldova is now ranking 33<sup>rd</sup> out of the 178 beneficiaries of the EU's GSP. The global utilisation rate (effective GSP imports compared to eligible imports) has increased as well, from 57% in 2000 to 67% in 2002, which is above average. GSP preferences are particularly important for Moldovan exports in the **clothing and footwear** sectors, which together represent more than two thirds of preferential imports to the EU from that country. The main factor behind these improvements has been the granting of the benefit of the GSP special incentive arrangements for the protection of labour rights in 2000, which allows it to enjoy better preferences than all the other CIS members.

A **customs** law is already in place. However, implementing provisions for the customs code are still missing. Following Moldova's accession to WTO a new customs tariff was adopted. The Customs Department has been reorganised, but its administrative and operational capacities need improvement. The Department aims, amongst others, at reviewing and simplifying the customs procedures and formalities, modernising the customs border posts, fighting corruption and implementing an IT strategy. There are no customs laboratories in Moldova. Moldova applies preferential rules of origin with CIS countries and Romania. Contrary to the EU practice, the Chamber of Commerce issues both preferential and non-preferential certificates of origin.

The Transnistrian issue bears a strong impact on the implementation of the customs legislation. Transnistria has its "own" Customs service, budget, tax and customs legislation. Import/export transactions are not fully reflected in Moldovan official statistics. Because of lack of effective control over the border between Ukraine and Transnistria, Moldova faces difficulties in ensuring adequate control over the origin of goods.

As regards **taxation**, the State tax Administration within the Ministry of Finance is the main responsible body together with the territorial state tax administrations. The Financial Guard is a special subdivision within the tax authority.

Moldova suffered a significant drop in tax revenues in the years following independence. This negative development was the result of both steady decline in GDP and the disruption of the tax collection system. The substantial reduction reflects primarily the

general decline of production in Moldovan enterprises and their slumping profitability. Smuggling via Transnistria into Moldova of big amounts of excised goods (spirits, tobacco and oil products) also contributes to the diminishing of the revenues from external trade. The system of national “general state taxes” which is covered by the Tax Code includes, among others, an income tax, a value-added tax, excises, a private tax and customs duties. The VAT standard rate is 20%, there are two reduced rates of 8% and 5%, while exports of goods and services are zero-rated.

Moldova has signed double taxation treaties with in total 37 countries, amongst others with 18 Member States.

**Technical regulations and standards for industrial products** as well as certification are regulated by laws on Standardisation, Certification and Technical Barriers to Trade. Amendments were brought to the law on Standardisation in 2000, with the aim of moving towards European standards. The new law provides for the transition of the Moldovan standardisation process from mandatory to voluntary by the year 2005. The share of mandatory standards is presently estimated at about 85% and, in addition, there is a “List of Goods Subject to Compulsory Certification”. The Department of Standards and Metrology of Moldova exercises certification and standardisation functions and is responsible both for national policy in this sphere and for its enforcement.

Central pieces of legislation in the area of **intellectual and industrial property** include the law on Copyright and Neighbouring Rights, the 1996 law on Trademarks and Appellations of Origin (amended 2001), the 1997 law on the Protection of Industrial Designs and the 1995 law on Patents for Invention. The law on Distribution of Copies of Works and Phonograms includes registration procedures in the State Register by the State Agency for Copyright; there is also a State Agency on Industrial Property Protection.

The 1997 law on **Procurement** of Goods, Works and Services for Public Needs is based on model legislation from the UN. The law applies to all state procurement using public funds, above certain thresholds. The National Agency for Government Procurement is responsible for the administrative review of appeals; procedures are also in place for arbitration in cases of contractual disputes.

As regards the **provision of services and the right of establishment**, main obstacles for foreign investment include the cost and time of business registration and licensing requirements, and unpredictability of the legal system. Certain legislative steps have already been taken to facilitate investment and improve business conditions, while efforts were also made to improve the investment climate and conditions for business activity. Moldova adopted a new ‘Investment Strategy’ in 2002, and is now working on a new investment law.

In absolute terms **FDI** inflows are limited, but they are quite significant in per capita terms (US\$25 in 2003). However, total FDI has been declining since its 2001 peak of US\$ 160 million. Although the country has recently managed to attract some Russian and Turkish investment, some important foreign companies have discontinued their activity. Estimates for 2003 suggest that FDI might have remained close to or below the US\$ 100 million mark for the second year in a row.

### **3.4. Transport, energy, information society, environment and Research and Innovation**

In recent years, the Ministry of **Transport** has pursued a policy of gradual liberalisation and privatisation of the sector. Moldova plans to reinforce the implementation of a number of international conventions (also applying these to national transport operations). Here the emphasis lies on strengthening the transport safety requirements. In the road sector Moldova has privatised the road freight and most of the road passenger operations and plans to further develop the sector by setting higher operating standards. A restructuring programme for the incumbent rail operator has started and a new legislative framework for the rail sector is in preparation. The promotion of multi-modal services and improvements in the interoperability for the further development of rail network connections play an important role. In the aviation sector, the airports have become legally separate of the national carrier and the main national airport has been restructured. The Civil Aviation Administration is responsible for the safety, economic and airspace regulation. Moldova has started its integration into Pan-European aviation structures. It is a member of ECAC (European Civil Aviation Conference) and Eurocontrol and has applied for membership in JAA (Joint Aviation Authorities). Bilateral air services agreements between Moldova and EU Member States are not in line with Community legislation.

Concerning infrastructure policy, Moldova is hampered by a significant lack of financial resources for the maintenance and development of its infrastructure network. Moldova seeks to improve connections and co-operation in the context of the relevant Pan-European corridors network. There are missing links and bottlenecks in the international transport and main local networks.

Concerning **energy**, Moldova is almost entirely dependent on imports, in particular from Russia (gas and oil notably) and Ukraine (e.g. coal). Russian gas directed towards South East Europe and Turkey transits through Moldova. This pipeline network is in need of maintenance and rehabilitation. The energy sector suffers from low efficiencies, price distortions, insufficient bill collection, payment arrears and a need to invest in a generally outdated infrastructure. In 2000 the Government approved an Energy Strategy until 2010 which aims, i.a., at enhancing security of supply, improving the competitiveness of the sector including through privatisation and elimination of price distortions, and promoting energy efficiency and the use of renewable energy sources. A regulator, the National Energy Regulatory Agency, has been established. Moldova is interested in extending its regional role in the energy sector. Its observer status in the EU initiated Regional Energy Market in South East Europe ("Athens Memorandum") fits into this ambition.

Basic legislation in the electricity and gas sector was enacted in 1998. The restructuring of the power sector started in 1995 with the breaking up of the state monopoly into separate state owned entities dealing with generation, transmission and dispatch, and distribution. As a first step, three of the five power distribution companies were privatised by the sale of the majority of the shares to a foreign company. The bulk of installed power generation capacity is located in Transnistria. Moldovagaz is the main actor in the gas sector. With the support of the EU, Moldova started to install gas metering devices at its borders, which are crucial for payments related to gas imports and transit.

A National Energy Efficiency Agency is active on energy efficiency and the promotion of renewable energy sources. However, there is a clear lack of financial means to advance in this area.

The Ministry of Transport and Communications is responsible for the policy development for electronic communications and the **Information Society**. The National Regulatory Agency for Telecommunications and Information Technologies (ANRTI) was established by decision of the Government in 2000. The Government aims at strengthening ANRTI's independence and at consolidating its powers and tasks for efficient regulation of the markets.

The Telecommunications Law of 1995 was amended in 2001. A new tariff control regulation was adopted in 2001, and the Government aims at completing the first phase of a cost-based tariff re-balancing plan by 2005. Rules and procedures regarding interconnection have been adopted. As part of Moldova's accession to the WTO in 2001, the Government is committed to liberalise the telecommunications market by 2005.

A three-year National **Environmental** Action Plan was adopted in 1996. In 2001, a new Concept of Environmental Policy, reflecting Moldova's environmental priorities and objectives, was adopted. Some issue-specific strategies were developed recently.

Moldova adopted a framework law on Environmental Protection in 1993, which has become outdated. Moldova is presently reviewing it, with a view to converge with EU legislation. At the beginning of 2004, the Ministry of Ecology, Construction and Territorial Development was re-organised into two new entities: the Ministry of Ecology and Natural Resources, and the Department of Construction and Territorial Development. The forestry department and the water agency, which were previously responsible directly under the government, are now incorporated under the new Ministry of Ecology and Natural Resources.

Moldova is a member of the Danube - Black Sea Task Force. It has ratified relevant international and regional conventions and has acceded to the Kyoto Protocol.

The present level of **research** investment in Moldova is low and there is no scientific cooperation with the EC at present. Planned future cooperation would concentrate on objectives as the development of Moldova's capacity in technological R&D, Moldova's integration into the European Research Area and into the Community R&D Framework Programmes on the basis of scientific excellence and Moldova's integration in high level scientific exchanges, with the support, where appropriate, from INTAS.