

# **BRIEFING BOOK**

**From**

**Development Partners of Moldova**

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## PURPOSE

The community of development partners in the Republic of Moldova would be honored to engage in the **development policy dialogue with the new Government**. This *“Briefing Book from Development Partners”* is offered as a first step in such a dialogue and is solely intended to assist the new Government by providing development partners’ views and proposals that it can use to the extent it considers useful and relevant. These recommendations are based on Moldova’s existing policy orientations as set out in the National Development Strategy *Moldova 2020*, its international obligations, and the Association Agreement (AA) with the European Union (EU).

### *A focus on implementation*

Moldova made a formal commitment to **accelerate the country’s development** by making it capital-intensive, sustainable and knowledge-driven. With a strategic framework outlining Moldova’s development path in place, it is now **critical to accelerate implementation of the reforms including those set out in the Association Agenda to move closer to the EU**.

### *Need to ensure a stable economic environment and sound management of public finances*

Moldova faces **significant risks** in the financial sector, which should be addressed as a matter of urgency. A well-regulated and reliable banking sector is fundamental to business, people and international investors. At the same time a robust system of public financial management should be in place to ensure **transparency and accountability** of public finances. Moldova should develop a competitive business environment attractive to new investment. Moldova should also take advantage of new trading opportunities through effective implementation of the Deep and Comprehensive Free Trade Area (DCFTA).

### *Uneven progress hinders development achievements*

In recent years Moldova showed considerable progress. However, **major inequalities persist**, with costs to society as a whole. Rural Moldova continues to lag behind changes happening in a few cities in terms of poverty, jobs and access to basic services. Gender inequality also poses a significant loss to overall socioeconomic advancement. Equity lies at the heart of the future global Sustainable Development Goals agenda. **A focus on overcoming inequalities will accelerate economic growth and tap into the full human capital potential in Moldova**.

### *Justice and public administration are the bedrock for all sectors*

**Genuine reforms in justice and public administration** would underpin the success of reforms in all other sectors. In particular, this means making **concrete progress in fighting corruption**. Guaranteed **access to fair and independent justice** is important to businesses as it ensures **respect for property rights and contract provisions**; it also safeguards **respect for fundamental human rights for every person**. Fair and open justice is essential for instilling mutual trust in society, which is vital to **development**.

By the same token, **a streamlined, competent, and open bureaucracy lies at the heart of transforming the relationship between state, population and private sector**. There is an urgent need for defining **a strategy for reform at both central and local levels**. Using data for evidence-based policies and best practices is instrumental for this transformation. Advancing the

e-governance agenda will speed up and cut costs of many procedures, whilst also engendering transparency and greater trust in government.

### *Development with and by people*

To be productive and committed to building a future in Moldova, people throughout its territory need purposeful participation – having their say and contributing to policy and public service design and delivery **as co-producers of their own development**. In this context, there is a need to ensure inclusiveness and promote cohesion of society, and take an approach that engages people on both banks of the Nistru River. Engaging people in **new ways** can be a crucial dimension of the public administration and decentralization reform. International experience shows that **openness, innovation and people’s involvement not only make public policies and services more relevant and efficient, but also increase the society’s sense of ownership and common purpose**. Civil society should be further empowered to play its vital watchdog role.

### *A coordinated approach to development*

Today’s multifaceted development challenges require solid institutional coordination **and a “whole-of-government” approach**. Moving to genuine implementation of the Government’s program and prioritized investment will require a robust institutional coordination mechanism. This includes **an effective coordination mechanism for external assistance** linked to a sound medium-term planning and budgeting framework. Implementation of the AA and the public investment program should be nested within such an approach.

### *Leveraging development assistance to maximum effect*

In March 2010, in line with the country’s global commitments on aid effectiveness, the Prime Minister of the Republic of Moldova agreed a set of Development Partnership Principles with the country’s development partners. These established a Joint Partnership Council and sector coordination councils to improve development policy and assistance coordination. **Activation of the Joint Partnership Council and continuation of sector councils can provide the platforms for the effective coordination of external cooperation.**

We firmly believe that Moldova’s profound transformation is possible through inclusive modernization that involves all parts of society wherever on the territory they reside, aimed at transforming economic, social, demographic, and resources’ assets of the country. In order to make the best use of the mandate bestowed on it by the people of Moldova, such efforts should be underway as soon as the new Government takes power.

## FINANCIAL SECTOR

### *Key Issues and Challenges*

**High risks exist in the financial sector and require immediate action.** Three banks (Banca de Economii [BEM], Unibank, and Banca Sociala) were placed under special administration between late November and mid-December due to large and opaque transactions among themselves and with foreign banks and companies. These transactions call into question the integrity of their balance sheets and expose the banking sector to significant liquidity and contagion risks. Other banks in Moldova may have also participated in financing these transactions. Although irregularities were apparent since late-2013, the authorities took no meaningful action till late November 2014: government representatives on the board of one bank have not exerted control over the bank; legislation is still pending that would grant National Bank of Moldova (NBM) board, management, and staff the legal protection they need to carry out their duties in good faith; and questionable court decisions have blocked NBM action and made NBM hesitant to take further action. This collective delayed action points to the need for a significant overhaul of governance in the financial system – the authorities should see the crisis as an opportunity to overhaul the governance of the financial sector.

**The banking sector is concentrated, posing additional risks.** There is a lack of transparency on ultimate beneficial ownership, large exposures to some clients, significant related-party lending in banks' portfolios, and resulting high non-performing loans (NPLs). Weaknesses in the share registry system (e.g., corporate securities are registered in eleven private registries without adequate security measures and electronic backups) have contributed to “raider attacks” by which securities are fraudulently transferred from their rightful owners to others. This has contributed to concentration of about three fourths of the banking sector's assets in the control of a small number of individuals.

**Moldova's two financial regulatory bodies have weak enforcement powers.** The powers of NBM (banking supervision) and the National Commission for Financial Markets (NCFM, non-banks) have been weakened due to court rulings. Weak legal protection for NBM and NCFM boards, management, and staff also limit enforcement measures. However, both NBM and NCFM could take much more decisive action within their existing powers. NBM and NCFM regulate the banking and non-banking sectors separately, but the exchange of information between them is minimal.

**Access to financial services in Moldova is relatively low.** Credit to the private sector as a share of GDP is about 35 percent of GDP, and deposits are about 45 percent of GDP. Both ratios are roughly in line with countries at similar stages of development, but lag behind other countries in Eastern Europe. Access to finance is identified as one of the most pressing issues for enterprise development in Moldova. Weaknesses in the insolvency regime and in the rights of creditors and debtors create uncertainty and discourage financial transactions. The financial system is dominated by the banking sector, with assets equal to 70 percent of GDP (small compared to neighboring peers), while the insurance, microfinance, and capital markets are very small.

**There are systemic weaknesses within capital markets.** The infrastructure is outdated and relies on manual paperwork. Trading costs are high. Companies do not view the securities market as a source of capital, and savers do not embrace it as a credible place for investments.

The 2012 Capital Market Law transposed eleven EU Directives and was intended to streamline market infrastructure and stimulate activity, but reforms are moving slowly.

Immediate reforms (<100 days):

- Disclose to the public the value of the losses incurred by the state because of BEM, Unibank, and Banca Sociala and prosecute all those responsible to the fullest extent of the law;
- Secure all computers and records of BEM, Unibank, and Banca Sociala;
- Contract a forensic audit to one of the big four accounting firms;
- Clarify that the guarantee extended to NBM does not cover interbank lending;
- Make and implement a time-bound decision to resolve all three banks in line with good international practice;
- Task a formal body (e.g., the existing National Commission on Financial Stability, or a new Council of National Regulators) to conduct a system-wide financial stability assessment;
- Develop a comprehensive financial crisis resolution contingency plan, and identify necessary amendments to the legislation;
- Amend the NBM Law, NCFM Law, and other legislation as necessary to:
  - provide full legal protection and assistance to all NBM and NCFM employees in case of lawsuits for actions taken in good faith;
  - provide NBM and NCFM with the ability to enforce supervisory and regulatory actions in a timely manner;
  - provide NCFM with all necessary regulatory and supervisory powers to ensure the integrity and transparency of securities registrations and transfers; and
  - remove the power of the Ministry of Justice to amend the content of NBM and NCFM regulations.
- Re-evaluate bank shareholders to ensure disclosure of ultimate beneficial owners (UBOs), and ensure continuous monitoring of owners and UBOs; and
- Increase the intensity of supervision and severity of corrective actions, including fines and restrictions, against banks in the case of violation of laws and regulations.

Short-term reforms (<12 months):

- Develop a program of capacity-building on crisis resolution, including strengthened coordination arrangements;
- Amend the Law on Financial Institutions and the Law on Joint Stock Companies to enumerate the distinct roles of owners, board members, and senior management, introduce other corporate governance measures, and limit inappropriate court interventions into the operation of the corporate bodies;
- Amend the Capital Market Law to: (1) consolidate the corporate securities registration function into an appropriately regulated and governed central securities depository,

(2) eliminate the Ministry of Justice's power to act as a central securities depository for the non-banking companies, and (3) implement the custodian functions;

- Develop and approve regulations to implement the Capital Market Law in line with good international practice and EU Directives;
- Clarify legislation to assure that the Deposit Guarantee Fund (DGF) has earlier access to detailed depositor information and to allow it to verify such information on-site;
- Enhance DGF's funding by providing a line of credit from the Ministry of Finance and including NBM as an additional source of back-up funding;
- Complete the modernization of the unified Collateral Registry, implementing the provisions of the 2014 Pledge Law that unify the creation of security interests over movable assets under a single registry;
- Amend the Law on Mortgage to align it with the reformed movable pledge framework (e.g., notice based e-registration, unrestricted second mortgage, reduced creation costs, and security right in proceeds);
- Parliament to approve the draft Law no. 323 of July 28, 2014 to amend the Law on Joint Stock Companies to protect better investors' rights and interests; and
- Formalize the remittances transfer channels by diversifying the available services provided by the banking sector, extending rapid money transfer systems to the national postal offices, and diversifying savings instruments, thus maximizing the potential of remittances for development.

Medium-term reforms (>12 months):

- Take forward implementation of a risk-based approach to insurance supervision, and develop key elements of group supervision, particularly with agencies outside Moldova;
- Encourage early filing of insolvency proceedings and facilitate restructuring by developing the rules on directors' duties, removing barriers on insolvency filing by creditors, introducing clear conditions for obtaining and incentivizing new finance, and allowing for the extension of deadlines for the development of restructuring strategies;
- Assign insolvency cases to designated members of the Court of Appeals who are specially trained in the management of insolvency cases;
- Restructure the activity of capital market operators in line with the Capital Market Law and install a market infrastructure that will stimulate public offers of securities; and
- Adopt corporate governance codes for the various segments of the financial sector (i.e., banking, insurance, microfinance, etc.) and enforce compliance.

## PRIVATE SECTOR DEVELOPMENT AND BUSINESS CLIMATE

### *Key Issues and Challenges*

**The AA with the EU presents a major opportunity to accelerate growth. Improvements in the business climate and enterprise competitiveness are needed to reap the potential gains.** The EU harmonization agenda and the Competitiveness Roadmap outline many necessary reforms.

**The non-transparent and unpredictable actions of the public sector bureaucracy are still a big problem.** Reform implementation has been stalled because of vested interests and political gridlock. Many public officials still have anti-business attitudes. Companies currently have to handle multiple and overlapping requirements related to licenses, permits, authorizations and inspections. Competition in the domestic market is low, which impedes innovation and competitiveness. In international trade administration, excessive controls, unclear and ad hoc requirements and valuation practices, lack of transparency, high degree of discretion, and inefficient logistics services make cross-border business slow, expensive and unpredictable. In tax administration, lack of clarity in the rules, and inefficiencies in the tax dispute resolution system and in VAT refunds, are barriers (see note on public finance). While Regulatory Impact Analysis (RIA) has been useful, it is not always applied. Legislation must be enforced more consistently by courts. The sector-specific elements of the business environment must also be addressed (see for example the agriculture note).

**Moldovan enterprises need stronger capacity.** Improvements in firms' strategic management, financial management and reporting, marketing, product quality, production processes, and other areas are needed. The quality of firms' financial statements is uneven, the system for collection and public availability of financial statements is not fully operational, and the accounting and auditing laws must be improved.

**Business support programs should therefore be improved.** Business development services are lacking in quantity and quality. Moreover, businesses do not want to pay for development services because they do not understand how much they can benefit. The public authorities mandated to facilitate exports, investment attraction and Small and Medium Enterprise (SME) competitiveness (Moldovan Investment and Export Promotion Organization [MIEPO] and SME Development Organization [ODIMM]) have been under-resourced, need organizational development and their range of services is limited. Legal mechanisms for the protection of investors are weak. Poor governance in the financial sector limits access to finance (see the financial sector note).

### Immediate reforms (<100 days):

- *Overall:* Ensure full implementation of the Business Roadmap for 2013–2014 and Competitiveness Roadmap. Ensure full implementation of the EU harmonization agenda;
- *Permissive documents and inspections:* Adopt the law and draft government decision streamlining procedures for construction permits. Adopt the law streamlining internal trade authorizations. Review risk-based inspection methodologies and implement improved versions. Implement the state inspection register;
- *Competition:* Improve the structure, staffing, and capacity of the Competition Council, and enforce public authorities' reporting to the State Aid Registry;

- *International trade and tax administration:* Fully apply RIA to acts affecting enterprises;
- *Export promotion and investment:* Adopt a short-term strategy for MIEPO, outlining programs and funding (including from EU) for export promotion. Identify policy reforms to remove obstacles to investment retention and attraction, including a reform of MIEPO's institutional set-up; and
- *Financial reporting:* Finalize transposition tables to benchmark auditing and accounting legislation to the requirements of the EU *acquis communautaire*.

Short-term reforms (<12 months):

- *Overall:* Ensure full implementation of the Regulatory Reform Strategy Action Plan, short-term elements of the Competitiveness Roadmap, and EU harmonization agenda;
- *Reform governance:* Develop and implement performance indicators for public authorities that regulate business. Ensure 100 percent application of RIA and sound oversight of regulatory reform implementation;
- *Permissive documents and inspections:* Ensure that laws and regulations are consistent with the requirements of the Inspection Law and Guillotine 2+. Further streamline permissive documents, including those for import and export. Begin implementing one-stop shop(s) for permissive documents. Make all necessary information about permissive documents (national and local) and inspections available online. Apply inspection rules to tax and customs services;
- *International trade administration:* Implement simplified customs procedures and electronic (paperless) declarations for all customs regimes. Approve deferred payment of trade revenue for authorized traders. Enhance risk-based controls and drastically reduce customs controls at the point of clearance, including additional controls targeting valuation;
- *Enterprise competitiveness/investment:* Adopt institutional strategies for the SME and export/investment agencies, giving each adequate institutional set-ups, programs, and budget (including from the EU) to implement their mandates. Review and/or redesign the PARE 1+1 program (targeting, eligibility criteria and the structure of incentives). Establish an investor retention mechanism. Adopt Information and Communication Technology (ICT) Competitiveness Strategy. Support the creation of business excellence networks and engage actively the Moldovan diaspora. Support the development of other models and products for attracting and employing diaspora resources for business development; and
- *Financial reporting:* Strengthen the capacity of the Public Registry to enforce financial reporting filing and publication.

Medium-term reforms (>12 months):

- *Permissive documents:* Ensure adequate establishment and functioning of one-stop shop(s). Draw up and approve urban plans for municipalities and cities;
- *Competition:* Address competition issues in priority sectors, by conducting assessments, applying the Law on Competition, and making legal/regulatory changes;
- *International trade administration and tax administration:* Sign on to the Revised Kyoto Convention (RKC) and adopt a new Customs Code aligned with it. Align the trade logistics

framework and procedures with international good practices. Connect to the EU New Computerised Transit System transit system. Ease the VAT regulation related to the investment in modern industrial equipment. Defer the VAT payment for the imported raw materials and accessories;

- *Recognition of international arbitration decisions:* Remove institutional obstacles to recognition and enforcement of international arbitration decisions in accordance with the UNCITRAL Convention;
- *Enterprise competitiveness and investment:* Review/update SME and export/investment agency strategies, programs and funding (including from the EU). Monitor impact of investment policy interventions. Ensure full implementation of the SME Strategy;
- *Financial reporting:* Revise the legislation and improve operational efficiency of audit public oversight system. Train regulators and improve accountancy education;
- *Privatization:* Vigorously implement privatization of state enterprises and assets in a transparent manner; and
- *State support:* Review the levels of state support to various economic sectors.

## TRADE POLICY

### *Key Issues and Challenges*

**A notable recent trade policy event was the signature on June 27, 2014 of the Association Agreement between the EU and the Republic of Moldova, including the DCFTA.** Moldova ratified the Agreement on July 2, 2014. A number of provisions, including certain economic chapters and the DCFTA section of the Agreement, are provisionally applied as of September 1, 2014. The DCFTA provides for mutual elimination of customs duties for industrial and most agricultural products (on the side of the EU on a gradual basis), and further liberalization of the services market, as well as addressing other barriers to trade and reforms in economic governance aimed at strengthening transparency and competition. According to the Action Plan for the implementation of the AA and DCFTA, the Ministry of Economy, as the coordinating body on economic chapters and DCFTA, has created several working groups to work on specific DCFTA requirements and horizontal (inter-ministerial) commitments.

**Soon after ratification of the AA/DCFTA, the economy of the Republic of Moldova faced a series of unilateral measures from traditional trading partners.** Trade bans imposed by Russia seriously affected the export operations of the country, especially the export of fruit, canned products and fresh and processed meat. Despite these measures, the trade activity of the country maintained an increasing trend, with the EU becoming Moldova's main trade partner, accounting for 52 percent and 49 percent respectively of Moldova's exports and imports during January-September 2014.

**The export embargoes and the decline in the Russian ruble have seriously affected the agriculture sector, which lacks the technical and managerial capacity to adapt rapidly to the technical demands of new markets.** A doubling of the EU tariff-rate quota (TRQ) for fruits had little impact as the rates of quota utilization remained low, as well as due to bureaucratic hurdles in importing EU countries. In order to compensate for the losses, the Government approved a mechanism of compensation of losses for apple and plums producers. However, budgetary constraints and targeting difficulties made it impossible to provide full compensation.

**The signature of the AA and DCFTA offers new opportunities to Moldovan exporters and will also expose the domestic market to greater EU competition.** Competitiveness in all tradable sectors will therefore be critical. Moldova currently scores 4 out of 7 in the Global Competitiveness Index rankings, with good ratings (of 5) only for provision of health and primary education services. The scores are particularly weak for institutions, market size, innovation and technological readiness. Priorities for strengthening the investment climate are covered in another note, but it is worth emphasizing here that policies adopted by the Government focus more on investment attraction than on investment protection.

**Agriculture represents about 25 percent of exports.** In order to increase its contribution, particularly through sales to the EU, the sector should improve compliance with technical requirements regarding Sanitary and Phytosanitary (SPS) standards, packaging, labeling and sizing. This will require strengthened post-harvest infrastructure and key roles for the Agency for Payments in Agriculture (APIA) and Food Safety Administration (FSA).

Full implementation of the DCFTA provisions will benefit the economy by increasing trade between the EU and Moldova. An important issue in this respect is the implementation of the agreement on the whole territory of the country, including Transnistria. In order to maximize

benefits from the DCFTA, special attention should be paid to the application of its provisions in Transnistria. This may require a special implementation mechanism, on which both sides (Chisinau and Tiraspol) need to reach an understanding, taking into account that Moldova is the Contracting Party to the AA.

Immediate reforms (<100 days):

- Urgent adoption by the Parliament of pending trade-related legislation;
- Implementation of measures to support enterprise competitiveness, with particular emphasis on agri-business supply chains (for details, please see note on private sector development and the investment climate);
- Capacity building of the Ministry of Economy as the main institution responsible for DCFTA implementation;
- Strengthening of investment protection;
- Raising awareness of the implications of the DCFTA and the requirements of EU markets in specific sectors and regions; and
- Development of a mechanism for the implementation of the DCFTA in Transnistria.

Short-term reforms (<12 months):

- Capacity-building and strengthening of the National Food Safety Agency;
- Replacement of national standards with EU and international standards;
- Development and accreditation of national SPS laboratories;
- Elaboration of the mechanism regarding implementation of the DCFTA in Transnistria, deadline December 31, 2015; and
- Increase communication activities related to technical aspects of the DCFTA, with emphasis on tariff-rate quota management and other customs issues.

Medium-term reforms (>12 months):

- Implementation of DCFTA provisions in all sectors and institutions;
- Implementation of approximated legislation in the fields of standardization and SPS measures;
- Streamlined, predictable and less expensive product conformity procedures and regulations; and
- Continued implementation of measures to support enterprise competitiveness, with particular emphasis on agri-business supply chains (for details, please see note on private sector development and the investment climate).

## PUBLIC FINANCE

### *Key Issues and Challenges*

**Efficient management of public finances is needed to make public spending productive and to keep the deficit under control.**

**On the expenditure side,** social and demographic pressures will intensify, including existing commitments on social insurance and pensions. Public sector spending on education and health in particular is already high. Ageing will increase the pension bill and fuel the demand for healthcare services. Decentralization requires new intergovernmental fiscal relations to enforce fiscal discipline and reduce the inefficiencies stemming from small, fragmented local governments. Expenditure adjustments are needed to make space for pressing public investment needs. Better capital budgeting and public investment management (PIM) is needed to raise the productivity of public investment. In public procurement, the main challenges continue to be the incomplete secondary legislation, the review and approval of contracts by the Public Procurement Agency, and an inadequate complaints review mechanism. Interest expenditure is going to increase significantly in the medium term once the state recognizes the losses incurred in the banking sector.

**On the revenue side, institutional weaknesses are the main problem.** The scope for raising revenues is limited, as tax revenue is already high as a percent of GDP, in comparison with countries in the region. The limited possibilities for raising revenues include real estate taxes, VAT (there are numerous exemptions with zero or reduced rates) and excise taxes. Nevertheless, the main possibilities for raising revenues should not be through raising taxes, which can reinforce compliance problems, but through improving tax administration. A lack of clarity in the tax rules and inefficiencies in the tax dispute resolution system and in VAT refunds, are barriers. The tax authority has a large network of fragmental, decentralized territorial units. Unified tax administration as a single legal entity, with a central headquarters and 3-5 regional offices, would improve the effectiveness of the tax administration by facilitating centralized risk-based audit selection and minimizing the physical interaction between tax inspectors and taxpayers. This would in turn strengthen voluntary compliance, reduce compliance costs, and enhance professionalism and the integrity of State Tax Inspection (STI) staff and the use of modern technology (Integrated Tax Modernization System).

### Immediate reforms (<100 days):

- Prepare and approve the 2015 Budget Law based on conservative macroeconomic assumptions and in line with the fiscal rule legislated by the fiscal responsibility law, targeting a deficit below 3 percent of GDP;
- Lower the threshold for public investment projects (established by the PIM Regulations #1029) in order to trigger the formal appraisal, selection and implementation mechanism for more projects;
- Revise the audit selection criteria and start implementing the risk-based approach to audit planning and investigations in the STI;
- Approve the STI's proposal for a unified tax administration organizational structure;

- Approve the new draft Public Procurement Law in line with good international public procurement practices, ensuring, inter alia, full independence and impartiality of the Agency for Resolving Complaints; and
- Recognize the losses incurred by the state in the banking sector (see the note on financial sector) and issue government bonds to cover the cost of these losses over the medium term.

Short-term reforms (<12 months):

- Consider agreeing a program with the IMF, which would strengthen the credibility of the macroeconomic framework and thus provide comfort to budget support donors;
- Legislate and implement parametric changes to the Pay-as-You-Go (PAYG) pension system to ensure its equity and longer-term sustainability (see the note on pensions);
- Review tax expenditures to broaden the tax base and create a more level playing field for businesses;
- Institute a rigorous screening process and formal procedure to decide on public investment project preparation; and
- Revise the appeal procedures in the STI to ensure a fair and independent complaints resolution mechanism.

Medium-term reforms (>12 months):

- Institutionalize the Medium-term Budget Framework (MTBF) process and performance budgeting;
- Improve general-purpose intergovernmental transfer formulas;
- Introduce residence-based sharing of the Personal Income Tax (PIT) to improve fiscal equity of local governments;
- Raise own-source local revenues through tax administration reform and tax assignment policy changes;
- Harmonize excise taxes with EU Directives;
- Revise tax administration business processes and lock in new taxation rules by drafting a new Tax Code; and
- Utilize risk management throughout the tax administration at all stages (registration, filing, payment and audit) building on already used risk-based audit selection process.

## STRENGTHENING PUBLIC ADMINISTRATION MANAGEMENT

### *Key Issues and Challenges*

**Moldova needs a better public administration to achieve the National Strategy’s objectives and to meet its AA commitments.** From 2006 to 2013, Moldova successfully modernized its legislation and administrative processes under the Central Public Administration Reform (CPAR). But significant additional efforts are needed to achieve four objectives:

- **Strengthening performance and meritocracy in the civil service.** Laws no. 158 of 2008, no. 155 of 2011 and no. 48 of 2012 have laid the foundation for a meritocratic civil service with a well-defined pay and performance management system. Even so it is still difficult to attract and retain qualified graduates. While low pay is part of the reason, dysfunctional individual performance evaluations, frustration about career opportunities, and a work environment that discourages initiative also contribute. The civil service training system neither allows rapid capacity-building in priority areas nor supports modern management approaches. Increasing base pay is not an option, so measures to improve the performance system, increase job-satisfaction and strengthen a performance culture are all the more important;
- **Addressing corruption.** Corruption was identified as the top out of 10 obstacles in the business environment<sup>1</sup>. Transparency International reported that 66 percent of Moldovans felt that public officials and civil servants were corrupt.<sup>2</sup> Perception of corruption obviously undermines trust in government. Moldova has launched a number of ambitious anti-corruption/corruption prevention initiatives in recent years. Continuing support for the National Anti-Corruption Center (NAC) and the National Integrity Commission (NIC) will be the key to sustaining these efforts. Anti-corruption efforts could target vulnerabilities faced by businesses and the financial sector in particular;
- **Making public services work for the population and firms.** Inefficient, fragmented and often corrupt service delivery increases the cost of doing business, harms growth and limits access, especially for poor and rural people. To address this, Moldova has made commitments to simplify and digitize all public services by 2020. With Resolution no. 661, it decided to scale up the “Single Information and Services Bureau” model. The e-Government Center has made impressive progress in providing the IT-infrastructure for online services. However, business process reengineering has lagged behind, both at the center and in local government, and is the most important public administration challenge ahead; and
- **Making evidence-based policy.** The State Chancellery has proved effective in policy coordination and introducing strategic planning instruments in government agencies. Unfortunately; however, senior management and political office holders have shown little interest in using evidence to inform policymaking. This, together with the limited capacity of line-ministries’ policy units and the lack of a regulatory framework for policy management means that policy decisions are often taken without consideration of implementation or the economic, social and environmental consequences or accurate population data. The draft Public Administration Reform Roadmap for 2014-2020 addresses these concerns.

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<sup>1</sup> Enterprise Surveys 2013, World Bank: <http://www.enterprisesurveys.org/data/exploreconomies/2013/moldova>

<sup>2</sup> Global Corruption Barometer, Transparency International, 2013.

### Immediate reforms (<100 days):

- Set strategic directions and priorities for Public Administration Reform until 2020 by adopting the reform Roadmap with clear outcome level objectives, performance problems identified and an integrated vision of how services will be delivered in 2020;
- Establish a coordination unit under the Prime Minister to coordinate public administration reform implementation, in particular public service reengineering and policy development. Alternatively, ensure relevant staffing in the Department for Public Policies and Foreign Aid Coordination and Central Public Administration Reform in the State Chancellery; and
- Draft amendments to the legal framework on asset declaration.<sup>3</sup>

### Short-term reforms (<12 months):

#### **Civil Service**

- Develop an action plan to improve the retention of junior staff based on analysis of the causes of turnover;
- Assess the effectiveness of recruitment and performance appraisal procedures; and
- Develop an action plan for modernization of the civil service training system.

#### **Public Services**

- Undertake the mid-term review of the Public Services Modernization Program for 2014-2016, identify implementation challenges, and scale-up re-engineering of business processes for priority services, focused on early wins and in close integration with one-stop shops / digitization of services;
- Develop the model and action plan for implementing service delivery centers, based on one-stop shop approach, for public services at all levels of the government; and
- Undertake functional reorganization and change management in agencies based on reengineered public services and support results-oriented management.

#### **Anti-Corruption**

- Begin the Money Laundering and Terrorist Financing National Risk Assessment;
- Finalize draft amendments on asset declaration and submit to Parliament; and
- Support the NAC, Prosecution General's Office and Judiciary on implementing asset recovery.

#### **Policymaking**

- Approve and apply the methodologies for ex-ante impact assessment and ex-post evaluation of government policies; and

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<sup>3</sup> 1) Increase the amount of time during which NIC can carry out verifications of the content of asset declarations; 2) Eliminate discrepancies between the legislation and the form in terms of what information filers need to disclose; 3) Include provisions that allow effective sanctioning for failure to disclose and false statement; 4) Consider including civil confiscation for unjustified variations of wealth; 5) Add provisions on electronic filing of asset declarations; 6) Revise the content of the asset declaration form to strike a balance between user-friendliness and comprehensiveness and support verification process.

- Design the action plan for capacity building activities to strengthen demand by political office holders and managers for evidence-based policymaking.

Medium-term reforms (>12 months):

**Civil Service**

- Full implementation of performance incentives envisaged by the Law no. 48 of 2012 *on the Pay System in Civil Service* (within grade progression, individual bonuses);
- Limit the scope for non-official payments or salary supplements for high state officials; and
- Modernize the civil service training system to effectively address capacity issues in policy development and public service delivery at all levels of the government.

**Public Services**

- Systematically reengineer and digitize priority services across central and local government agencies, and make them accessible through one-stop shops to firms and population; and
- Public Services: Establish a system for monitoring customer satisfaction with public services.

**Policymaking**

- Formulate targets and introduce public reporting on implementation of policies and programs;
- Implement performance reviews of Policy Analysis Units in all line-ministries and launch implementation of “performance improvement” plans; and
- Strengthen clear functional links and mechanisms between National Bureau of Statistics and Policy Analysis Units in line ministries for ensuring evidence-based public policy framework.

## ANTI-CORRUPTION

### *Key Issues and Challenges*

**In Moldova, corruption is endemic and systemic, entrenched in the full range of government institutions and at every level and includes state capture of key institutions to benefit private interests.** This assessment is confirmed by independent studies and public surveys. Most importantly of all, it is confirmed in the daily lives of Moldovan population. The results of this corruption are seen in the poor performance of the economy and in the violation of human rights. Potential investors, both domestic and international, decide to invest elsewhere and fewer Moldovans have well-paying jobs. Traffickers of children go free under non-transparent measures, attracting more criminals to prey on Moldovan children.

**In 13 fields in which Moldovans were surveyed for Transparency International's 2013 Global Corruption Barometer, just one field (religious bodies) was rated on the "clean" side of the scale.** The police, judiciary, public officials, and political parties are all considered extremely corrupt, with ratings ranging from 3.9 to 4.3 on a scale on which 5 is the most corrupt. In the same survey, 53 percent of respondents found corruption to be worsening.

**The confidence of the people of Moldova in their national government is in decline** and influenced by their knowledge that their underpaid, yet unaccountable, public servants live well in excess of their official salaries. The average monthly salary in public administration in 2011 was MDL3,419 (roughly US\$275).

**The formation of a new Government following November elections presents a key opportunity for Moldova to tackle the scourge of corruption in public life.** To have any chance of success it must be led by example from the top and have the full buy-in of all coalition partners.

**The EU Policy matrix remains an excellent vehicle for continuing reforms.** Donor funds will continue to be contingent upon the government's meeting the agreed conditionalities.

### Immediate reforms (<100 days):

- Senior government officials (President, Prime Minister, Speaker of Parliament, Chief Justice, Chairman of the Superior Council of Magistrates) should speak publicly and often on the imperative to stop corrupt practices now;
- Prosecute openly high-ranking officials charged with committing corrupt practices;
- All representatives of government must publicly commit to transparency and integrity. This starts with ensuring that decisions with economic value are made openly;
- Using judges' chambers for case hearings facilitates corruption. The use of court rooms for hearings should be made mandatory for all cases outside of Chisinau and for all criminal cases inside of Chisinau. There are enough court rooms to do so;
- Ensure uniform judicial practice at the level of the Supreme Court of Justice; and
- Use the new powers of the Prosecutor General to investigate judges for corruption.

### Short-term reforms (<12 months):

- Incorporate the Venice Commission's comments into the new Law on Prosecutorial Reform;

- Support oversight of the judicial system by the Superior Council of Magistrates and civil society;
- Remove the immunity from criminal liability for Members of Parliament – this would be a very visible symbol to the Moldovan people of their leaders acting by example. As a minimum it should include lifting immunity from prosecution on grounds of corruption. Parliamentary leaders could set an example by unilaterally renouncing their immunity;
- Make audio recordings the standard practice for making records of court proceedings and take disciplinary action against judges who do not ensure it;
- Accelerate adoption of online public services, with public consultation;
- Passing reform legislation on financing of political parties and electoral campaigns, including transparent reporting of such financing on ahead of local elections in 2015;
- Pass the reform on the mechanism of the declarations of the assets, property, personal interests and conflict of interests of high officials and public servants; introduce the civil seizure of unjustified assets and property of high officials and public servants; and
- Pass legislative amendments (i.e. Criminal Procedure Code, Civil Procedure Code and Contravention Code) in order to reduce the discretion of the justice sector actors

Medium-term reforms (>12 months):

- Pass the Law on Prosecutorial Reform;
- Continue the comprehensive civil service reform effort, with emphasis on the judiciary and the prosecutor's service. Realistic market driven salaries should be coupled with effective and transparent measures for corrupt officials to lose their positions; and
- Build bridges with the private sector toward the achievement of common goals, including anti-corruption initiatives. Many people's most deeply held concerns are economic in nature, and business associations have the potential to partner with the government to advocate for, and advise on, reforms.

## E-GOVERNANCE

### *Status, Key Issues and Challenges*

**The Government of Moldova launched the Governance e-Transformation Agenda in 2011 and has built cutting edge digital platforms and developed an enabling environment for digital transformation across the public administration.** Currently the Government is fully equipped with the digital platforms needed to enable the reengineering and digitization of sectorial public services. These platforms are: MCloud (data storage and management), MPass (authentication and access control), MSign (digital signature service), MConnect (data exchange and interoperability platform), MPay (electronic payment services), Enterprise Content Management Platform (platform for e-registries and e-permits), and Government Portal. These platforms are functional and ready to be utilized by sectorial ministries.

The Government of Moldova is currently implementing the following sectorial services under the umbrella of the Governance e-Transformation Project:

- a) digitization of paper-based civil status documentation;
- b) digitization of paper-based cadaster agency documentation;
- c) paperless government – online documents management system to be installed in all ministries and agencies;
- d) e-integrity – online system for submission/monitoring of statements of income, assets and personal interests;
- e) e-admission – a portal to automate the process of admission to higher education institutions;
- f) e-transportation authorization – application, sharing, analysis of requests and issuing of transportation licenses;
- g) whole-of-government e-procurement system;
- h) online registration and close-up of a business;
- i) online registration of selling or procurement of real estate;
- j) whole-of-government e-reporting platform to streamline and digitize the reporting by business to government agencies;
- k) e-subsidies for farmers to allow farmers to apply and receive subsidies for agriculture online and for the government to digitize the decision making process;
- l) import/export e-permits for food products;
- m) MNotify – an integrator of various technologies of communication with people (email, SMS, letters, Skype); and
- n) MDelivery – a management platform for delivering the results produced by sectorial services (certificates, citizen passports, IDs and other).

At the moment critical systems and data are stored on the main site of MCloud Phase I, which is reaching its capacity in terms of computing power and storage. Also, there is an urgent need for adequate backup and archiving capabilities. The need for additional storage, backup and disaster

recovery necessitated establishment of the MCloud Phase II facility. Procurement for the second MCloud site is at the final stage.

**To benefit from these infrastructure investments, the Government will need to show strong political leadership.** This means enforcing the mandatory use of existing infrastructure and e-government platforms by sectorial ministries and completing establishment of the MCloud Phase II facility. The next challenge will be to extend the infrastructure and services to the level of local government and constituents.

Short-term recommendations (<100 days):

- Mandate through a Government decision that no business process or public service should be digitized, unless it has been streamlined and simplified;
- Complete procurement of MCloud Phase II facility; and
- *Closely align public sector reforms with the e-Transformation agenda* and consider reengineering governance and current institutional arrangement for Information Technology management. Specifically:
  - **Set up the Public Service Reform Task Force** chaired by Prime Minister, comprising State Chancellery, Ministry of Finance, Ministry of Justice to coordinate and provide leadership in driving and enforcing the public sector and public service modernization agenda;
  - **Set up the ICT Governance Board**, comprising Ministry of Finance, State Chancellery, e-Government Center, Ministry of ICT, Public Procurement Agency to coordinate the public ICT investments to support Government Reform and Modernization. The Board would be responsible for ensuring reuse of existing e-Government Infrastructure and smart investments in IT in government;
  - **Set up Public Service Design and Innovation Unit** under the Prime Minister's Office to drive and deliver modernization of public service through innovation-based transformation and digitization of public services all across the government;
  - **Synchronize Public Service Reform at central and local government levels (e.g., Decentralization Reform, specifically related to public service delivery, and Public Service Reform Agenda);**
  - Approve and enforce the **Smart IT Investment Framework** to guide and ensure smart investments in ICT by ministries and government agencies; and
  - Set up **Cyber Security Government Task Force** to ensure coordination and implementation all across government of priority measures to ensure secure digital government.

Medium-term recommendations (< 12 months):

- *Issue a Government Decree allowing government data* to be used by the private sector, academia, and local government – especially data which are currently sold for a fee. This will foster innovation and technological breakthroughs in developing user-friendly services;

- *Finalize draft amendments on asset declaration* and submit to Parliament. The draft amendment should include provisions allowing for electronic filing of declarations, use of electronic signature and making e-signature available to the filers;
- *Synchronize Technological/Digital Modernization* with enacting new supporting policy decisions and legislation. The “20<sup>th</sup> century” legal and policy framework is often holding back innovation and technology adoption in government. Specifically, the following legal and policy actions would need to be undertaken:
  - Approve the **Law on Public Services and e-Government**, to support innovation and technology adoption in government in line with the EU Digital Agenda 2020, EU e-Government Agenda, Open Data Strategy and Cloud Computing Strategy;
  - Approve *Policy Decisions and Regulations to enable the data exchange and interoperability* through Government Platform MConnect, and to enforce the “Only Once” Principle of Data submission by the population and businesses to government. Align Moldova Legal Framework with the EU Framework of Interoperability of Pan-European Public Service Delivery;
  - Ensure **personal data protection**, as well as align relevant legislation with EU standards, and implement it effectively; and
  - Approve and enforce **cyber security policy, regulations and implementation mechanisms** to ensure secure digital communication, interactions, and transactions between people, businesses and government in Moldova and in the EU Digital Market;
- *Replace the current Information Technology (IT) investment/procurement arrangements with a framework which encourages the sharing of e-government platforms* between departments. This would make it easier to cover the cost of IT modernization. Government may consider setting up a Smart IT Investment Board, where Ministry of Finance, Agency of Public Procurement, State Chancellery, e-Government Center/CIO Office of the Government and Ministry of Information, Communications and Technology could decide on a coordinated IT budget and procurement program to ensure value for money.

Long-term recommendations (>12 months):

- *Increase population’s digital literacy*: this is important to increase the uptake of government e-services and platforms; and
- *Bring e-Transformation to the level of local government*: this will be improving government transactions: both Government-to-Government and Government-to-Citizen.

## DECENTRALIZATION AND REGIONAL DEVELOPMENT

### *Key Issues and Challenges*

**Moldova still witnesses profound economic polarization coupled with disparities between regions and a widening development gap between rural and urban areas.**<sup>4</sup> This is mainly driven by heavy concentration of economic activity and qualified labor force in the capital, imbalanced socio-economic development of the regions, continuous and excessive reliance of rural areas on agriculture,<sup>5</sup> lack of alternative occupations in other economic sectors and the resulting emigration of labor, as well as stagnant decentralization reform. As a result, in contrast to the capital, the poverty ratio in the regions maintains significantly high, varying between 23-30 percent between the regions North, Center and South.<sup>6</sup> In 2013, the average disposable income of a rural inhabitant was 31 percent lower compared to an urban one and 13 percent below the average national subsistence level (MDL1,612.3). This development gap is further expressed in much worse access to such basic services as safe water supply and sewerage systems, as well as education, having adverse impacts health outcomes and life prospects for people, including children, coming from rural areas.

**The local governments in Moldova are very fragmented, underfinanced and can provide only few services.** The small size of localities, combined with the low economic potential, affects negatively the financial, administrative and **institutional capacity** of local governments (LG) to fulfil their functions, most of them having a more representative role. This has particular significance for the most vulnerable and poor people who lack the most basic public services.

Over 30 percent of Moldovan communities have less than legally required 1,500 inhabitants.

50 percent of local elected officials voted in during the 2011 local election were new to the office and had little to no administrative experience.

Per capita administrative costs are five times higher in smaller municipalities (US\$20 vs US\$4 per capita).

*(Analytical Study on Administrative–Territorial Structure for RM, Expert Grup, 2010)*

**Despite the solid policy foundation in the areas of decentralization and regional development laid by the Government since 2005<sup>7</sup>, challenges in advancing local government reform and regional development (RD) persist.** Clarification of competences, fiscal decentralization and territorial-administrative consolidation are determining factors in the reform process. The current National Strategy for Regional Development (NSRD) 2013-2015 lacks a coherent and coordinated vision on RD. There is deficient coordination between Ministry for Regional Development and Construction and line ministries, unclear roles and responsibilities for RD Councils and RD Agencies, and fragile capacity of these. Three RD Agencies (Gagauzia, Chisinau and Transnistria) which are foreseen by law have not been established to date. Although initial attempts to improve the **regional statistics** were made, it is still deficient. Also, the effective implementation of the NSRD is at stake since Government invests only 1 percent of state budget in the National Fund for Regional Development for the implementation of regional development projects, while the coordination with other national

<sup>4</sup> As shown by recent Final Report on Post-2015 Country Consultations and the 3rd MDGs Report for Republic of Moldova. 26.2 percent of the rural population stated that in order to live better they need better public infrastructure, which is 10 p.p. above the perception of urban residents.

<sup>5</sup> 3rd MDGs Report for Republic of Moldova

<sup>6</sup> [http://mdrc.gov.md/public/files/Proiect\\_SNDR\\_.pdf](http://mdrc.gov.md/public/files/Proiect_SNDR_.pdf)

<sup>7</sup> Reference is made to the Law on Local Public Finances, Law on Regional Development, National Strategy for Regional Development (NSRD), National Decentralization Strategy, including sector decentralization strategies, Parity Commission on Decentralization; Special Parliamentary Commission on Decentralization etc.).

and international funds is still deficient.

Short-term reforms (<100 days):

- Consult and approve the optimal territorial-administrative configuration of the country, including the Nomenclature of Territorial Units for Statistics classification of regions in country;
- Define the clear and coherent political/strategic orientation on relevance/processes of decentralization, including sustainable regional development for the period 2016-2020;
- Clarify roles and responsibilities of various tiers of Government by eliminating contradictory legislative provisions on central and local competencies, and approve the Competencies' Registry;
- Clarify the responsibility on promotion of inter-municipal cooperation on the ground between the State Chancellery and line ministries;
- Make regulatory changes in the fiscal mechanisms (with focus on conditional transfers) to ensure a minimum, equitable level of service provision; and
- Build the capacities of central and local public authorities to implement the new fiscal system<sup>8</sup> by strengthening the Ministry of Finance coordination capacity, and providing technical and methodological assistance to LG for a smooth transition to the new fiscal system.

Medium-term reforms (<12 months):

- Ensure effective implementation of the territorial-administrative reform<sup>9</sup>, including the developed roadmaps on property delimitation, fiscal and sector decentralization;
- Organize local elections in accordance with the new territorial-administrative structure;
- Provide technical assistance to LGs on the new fiscal system with a particular focus on planning and performance based budgeting; train newly elected officials through innovative e-tools;
- Set up a joint coordination body to supervise, coordinate and streamline the pace of the decentralization and regional development reforms;
- Review available local strategic planning methodologies and approve a unified methodological set linked with regional and national planning and financing;
- Conduct the development of the National Strategy for RD and RDS 2016-2020 based on the lessons learned and participatory and transparent processes considering:
  - Increase allocation to the National Fund of Regional Development; and
  - Set up a flexible structure for regional development in Gagauzia and Chisinau;
- Put in place an effective (policy and funding) coordination mechanism and binding procedures between line ministries regarding the role of public institutions involved in RD;

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<sup>8</sup> The amended Law on Local Public Finances is applicable as of January 1, 2015.

<sup>9</sup> This can be done only before the 2015 local elections, since the law prohibits interrupting the mandates of local elected officials.

- Capacitate the RD Councils, RD Agencies and local governments to participate in regional development policies implementation; raise awareness on different decentralization and RD issues; and
- Improve the capacity of the National Bureau of Statistics in collection and processing of regional statistics data.

Long-term reforms (>12 months):

- Make further legal adjustments in fiscal decentralization areas: personal income tax, capital investment financing, sub-national borrowing, internal and external audits;
- Conduct periodic impact assessment of the new fiscal system and make necessary adjustments;
- Advance implementation of sector decentralization roadmaps (with line ministries and LGs);
- Assess the degree of implementation of the framework strategies (on decentralization and RD) and update them considering the interrelations with other cross-sector reforms;
- Provide systemic and continuous capacity development:
  - to public institutions involved in regional development on different RD issues;
  - to larger LGs to provide services in the smaller municipalities, directly or through inter-communal cooperation; and
  - to NBS and related public institutions in regional statistics.
- Operationalize the regional statistics platform at the national and regional levels; and
- Review of Construction Codes and Regulations (SNiPS) and GOSTs in accordance with the respective EU Directives.

## JUSTICE SECTOR

### *Key Issues and Challenges*

**Start the reform of the Prosecution Service.** A critical priority is the reform of the Prosecution Service in order to ensure its full independence from political interference and vested interests. The new Law on the Prosecution Service should be adopted without further delay according to the recommendations of the Venice Commission of the Council of Europe which will be provided in mid-March 2015.

**Intensify the fight against corruption in the justice sector:** With the adoption of the Justice Sector Reform Strategy for 2011-2016, the fight against corruption in the justice sector has become a key priority. In the end of 2013 the Parliament adopted the package of laws on corruption prevention in the judiciary (Law no. 325 of December 23, 2014; Law no. 326 of December 23, 2014, Law no. 328 of December 23, 2014, Law no. 178 of July 25, 2014) and starting with August 2014 the concept of professional integrity testing was introduced. However, the results of these innovations are not yet visible. The Government should intensify its efforts to ensure the successful implementation of the abovementioned laws.

**Increase the visibility of reform.** It is essential to explain the aims of the justice sector reform and to demonstrate its results for people, to enable them to actively participate in the reform process and to benefit of the reform's final results.

In the second half of 2014 the implementation of the Justice Sector Reform Strategy has noticeably slowed down. The failure to implement concrete reforms will have a direct impact on the overall implementation of the Justice Sector Reform Strategy.

Reform action is required now in the justice sector. The EU budget support operation can serve as a framework for key reforms.

### Short-term reforms (<100 days):

- Set-up a high-level Working Group on justice sector reform – to be convened on a bi-monthly basis – with the participation of all key stakeholders (Minister of Justice, Minister of Interior, President Constitutional Court, President National Council of Magistrates, Prosecutor General, National Anti-Corruption Center, National Integrity Commission, EU Delegation representative, USG representative, Prime Minister’s representative, Civil Society Organizations’ representatives, etc.). Minutes of the meetings should be made publicly available;
- Complete the reform of the prosecution service without any delay; adopt the Law on the Prosecution Service according to the recommendations of the Venice Commission (the reform of Prosecutor General's Office requires amendment of the Constitution);
- Adopt a law to ratify Protocol No. 12 to the European Court of Human Rights (ECHR) concerning the Convention for the Protection of Human Rights and Fundamental Freedoms;
- Reform the National Institute of Justice and ensure fair competition in the selection of its new Director;
- Organize fair and transparent competition for the selection of new judges to the Constitutional Court; and

- Approve the mandate of the Department of Judicial Administration (DJA) through a Government decree. It will ensure the sustainability of reforms such as the use of the Integrated Case Management System (ICMS) and audio recording. Incentivizing the new Statistics section of the DJA would also help.

Medium-term reforms (<12 months):

- Implement fully the package of laws for corruption prevention (Law no. 325 of December 23, 2014, Law no. 326 of December 23, 2014, Law no. 328 of December 23, 2014, Law no. 178 of July 25, 2014). Short quarterly reports to be published on the website of the Ministry of Justice;
- Implement the laws on judiciary reform adopted by the Parliament in 2012, 2013 and 2014 (Law no 154 of July 5, 2012, new amendments on the Law no. 154 of August 31, 2012); and
- Amend the relevant legislation in order to include the members of Government, Parliament and Constitutional Court in the list of public servants to whom professional integrity testing is applicable; and
- Establish a system for systematic development of case law and peer review for a consistent and uniform application of the law by the courts.

Long-term reforms (>12 months):

- Reform the Constitutional Court according to the Justice Sector Reform Strategy provisions;
- Strengthen the operational capacity of the National Integrity Commission (NIC); Amendment to the Law no. 180 of December 19, 2011 in order to reinforce NIC capacity (amendment of the procedure of appointment of NIC president, enforcement of NIC requests); and
- Start the optimization of the judicial map.

## POLICE AND LAW ENFORCEMENT

### *Key Issues and Challenges*

**Maintain the speed of reform and implement existing commitments.** Launched in 2010, the reform of the Ministry of Interior and its subordinated units has successfully passed from the legislation phase to implementation. It is essential to continue implementation in line with the national policy framework, as well as in the wider context of the AA and other international commitments.

**Adopt a zero-tolerance policy towards corruption and intensify the fight against corruption at all levels of the Ministry of Interior.** The Moldovan authorities have adopted comprehensive legislation on preventing and fighting corruption and reducing petty corruption/bribery in some citizen-government interactions. However, corruption is becoming more sophisticated and moving to the spheres where big money and power are located. Accordingly, there is a trend of petty corruption being replaced by grand/elite corruption. The Ministry of Interior should therefore ensure the full functionality and efficiency of internal anti-corruption mechanisms and units, as well as coordination and cooperation with other law enforcement authorities (particularly the National Anti-Corruption Center) on anti-corruption.

### Short-term reforms (<100 days):

- Guarantee the efficiency and impact of the activity of the Police irrespective of the political context;
- Ensure and monitor the implementation of the Strategic Development Programs of the Ministry of Interior and its subordinated units (including Police, Border Police, Carabineer Troops, etc.);
- Ensure the implementation of benchmarks of the EU Budget Support on implementation of the Visa Liberalization Action Plan for 2015, as well as developing the future EU Budget Support on reform of the Police; and
- Set-up and launch the implementation of the Intelligence-led Policing concept activities.

### Medium-term reforms (<12 months):

- Ensure an efficient and constructive intra- and inter-institutional cooperation, especially with the Prosecutor's General Office and prosecution officers within the reform of the pre-trial investigative phase;
- Set-up a modern human resources and strategic management policies mechanism;
- Finalize the reform and professionalization of the Carabineer Troops;
- Ensure the respect and protection of human rights while serving the population;
- Continue efforts in raising the level of trust in Police;
- Decrease the average intervention time from 42 to 30 minutes;
- Apply the containment policy with regard to illegal activities in the Transnistrian region; and
- Set-up the Joint Law Enforcement Training Center.

Long-term reforms (>12 months):

- Decrease the average intervention time to 15 minutes;
- Promote the participation of Moldovan Carabineers in international missions;
- Ensure that the Joint Law Enforcement Training Centre is fully operational;
- Increase the presence of Police within the regions and ensure an equal level of service quality nationwide; and
- Ensure the swift transfer from containment to engagement policy with regard to illegal activities in the Transnistrian region.

## HUMAN RIGHTS

### *Ensuring human rights are a reality for everyone*

The Republic of Moldova is party to seven of the nine core international treaties, and broadly strives to comply with guidance provided by international human rights review bodies. In the recent period, key policies have been adopted, and new institutions such as the Council for Preventing and Combatting Discrimination and Ensuring Equality have been established. The legal basis for Moldova's National Human Rights Institution was amended in 2014, providing promising possibilities for reform of the institution. A Child and Family Protection strategy has been approved. A major Justice Sector Reform is in progress.

Strong normative commitments have been made – and in some cases acted upon – to transform human rights protection systems, including recent commitments to move to community-based services and away from reliance on large institutions. Nevertheless, the quantum leap in terms of major transformation in a number of areas remains ahead. Also, impact in practice – although positive in some areas (child deinstitutionalization, inclusive education) – remains troubled in other areas (representation of women and minorities in public life, rights of children and adults with disabilities), and in need of further work. Minorities express concern at exclusion and negative developments. Effective protection of human rights requires functioning systems, including strong justice mechanisms and key services in communities. Lack of enforcement, legacies of problematic approaches – such as excessive reliance on institutionalization – as well as missing key social, medical and legal services, continues to give rise to human rights protection gaps. These problems are particularly pronounced in rural areas, as well as on the left bank of the Nistru River. Impunity for human rights abuse exacerbates these issues, as does corruption.

#### *Progress made:*

- Equality Council, Anti-Trafficking Secretariat, and National Councils on Child Rights Protection, Human Rights, Gender Equality and Inclusion of Persons with Disabilities in place, civil society consultation mechanisms improved;
- Number of children with disabilities attending mainstream schools and kindergartens doubled (circa 2,000 in 2012 to 4,000 in 2013);
- The justice system has become less punitive toward children: the number of children in post-sentence detention has reduced from 138 in 2006 to 39 in 2012; and
- National Referral System (NRS) for the protection and assistance of victims of trafficking has facilitated the provision of assistance to at least 150 victims of trafficking (including 13 minors), 473 victims of domestic violence (including 199 children), 165 stranded migrants, 53 unaccompanied minors identified abroad, 324 children left without parental care and 387 other vulnerable persons in 2013.

#### *Priorities to be addressed:*

- Solitary confinement is still practiced and should be ended;
- Quantum leap in key areas – adult deinstitutionalization, integration into the community, genuinely inclusive schools, anti-discrimination enforcement, ensuring equal health access – remains ahead;

- Corruption and other forms of rules non-compliance need to be further tackled;
- Levels of intolerance and acceptance of violence need to be reduced. Gender and other stereotypes need to be effectively combated;
- Genuine and effective alternatives to detention for children in conflict with the law need to be put in place. Victim-sensitive systems to support child- and adult victims of gender-based violence and other violent crimes should be improved; and
- Community-based services for stigmatized and other marginalized people need further development.

*How to achieve them:*

*Short-term reforms (<100 days):*

- Extend and amend National Human Rights Action Plan to 2016: In preparation for Moldova's second Universal Periodic Review (UPR) in 2016, amend and extend to the end of 2016 the current National Human Rights Action Plan (NHRAP), incorporating the current recommendations of the international human rights system;
- Fully implement and enforce Anti-Discrimination Law: Decisions by Moldova's Equality Council need to be implemented and enforced. Temporary Special Measures for ensuring de-facto equality for women at the decision making level in public and private sectors are needed; and
- Improve possibilities for remedy: Ratify Optional Protocols to Covenant on Economic, Social and Cultural Rights; Convention on the Rights of the Child; and Convention on the Rights of Persons with Disabilities, as well as Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence (Istanbul Convention).

*Medium-/long-term reforms (<12 months/>12 months):*

- End stigma and exclusion: Legal capacity and deinstitutionalization reforms should be carried out to ensure shift from medical to social models for persons with disabilities and transition from institutions towards services in the community;
- Roma inclusion: Scale up efforts to implement Action Plan on Supporting the Roma Population with priority on ensuring equal access to education and desegregation of schools where Roma are currently educated in separate arrangements. Initiate the preparatory and development phases for extending the plan beyond 2015;
- [Reforming Laws on Gender Based Violence](#): Further reforms needed to ensure protection from all forms of gender-based violence, including emergency protection orders and legal harmonization related to the crimes of sexual violence. Amend the referral system and rules framework to ensure immediate access to crisis and rehabilitation services for women and children victims of domestic violence;
- Anti-Torture: The absolute ban on torture and degrading treatment should be fully enforced, including follow up of recommendations of the Ombudsperson for the rights of persons in psychiatry. Child-friendly criminal investigation and judicial procedures, as well as victim, age- and gender-sensitive criminal investigation guidelines should be put in place. State free legal aid is needed for certain categories of adult victims, in particular victims of gender-

based violence. Reform the Criminal Code framework surrounding hate crime and related bias acts;

- Redouble reform efforts: Reforms of the justice sector, Prosecutor Service and National Human Rights Institution, including Child Rights Ombudsperson, all ongoing, should advance. Efforts to strengthen efficacy of existing protection systems (anti-trafficking, domestic violence, child protection, Roma inclusion, etc.) want to be redoubled. Health care in penitentiaries remains to be transferred from justice to health competence; and
- Guarantee the free exercise of the rights: Amend the legal framework governing NGOs to remove provisions which build in structural conflicts of interests and lift the ban on foreigners to register religious communities to secure the freedom of peaceful assembly and of association for all.

## GENDER EQUALITY AND WOMEN'S HUMAN RIGHTS

### *Gender equality and women's human rights are fundamental to a state's wellbeing*

Gender equality is not only a basic human right, but its achievement has a strong impact on socio-economic development of a state. Empowerment of women fuels economic growth and the wellbeing of families, communities and the state. Moldova has made international and national commitments to promote gender equality and empowerment of women, in particular through ratification of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), ILO Conventions and others. The legislative framework for equality between women and men is in line with international commitments. However, implementation lags behind and women still face discrimination and inequality in social, economic, and political life.

**Women's representation in politics and at decision-making levels is below international benchmarks.** Women held 20 percent of seats in the outgoing Parliament and following the election results the share of women in the incoming Parliament is likely to be the same or even lower. In the outgoing Government five of twenty-one Deputy Prime Ministers and Ministers were female. Women are also underrepresented at the local level holding 18.5 percent of mayor mandates, 17.4 percent of the seats in district and municipal councils, and 28.6 percent in local councils.<sup>10</sup> Women from particular groups, such as Romani women, women with disabilities and others, are virtually excluded from representation in public life. Women are also underrepresented in decision-making bodies in the private and civil society sectors, as well as within the tripartite mechanism.

**Women's equal participation in the labor market and women's economic empowerment are main factors for sustainable development, pro-poor growth and the achievement of Moldova 2020 targets in the context of the Millennium Development Goals.** The persistence of patriarchal attitudes and deep-rooted stereotypes regarding the roles and responsibilities of women and men in the family and in society are reflected in the educational choices and employment options of women and girls. Although unemployment is a challenge for both women and men, women face specific barriers on the labor market. These include discriminatory practices such as a significant payment gap disparities (women's, occupational segregation with women in lower paying occupations, gender wage 87.1 percent as a share of men's wage)<sup>11</sup> retirement ages established by law, discriminatory practices, sharing of work and family responsibilities (time allocated to unpaid work by women is 4.9 hrs. and 2.8 hrs. by men)<sup>12</sup>, and access to childcare facilities. Women, particularly those residing in rural areas and/or from marginalized communities, who wish to start their own business, face similar barriers, complemented by problems in accessing resources such as bank loans and other services required for successful entrepreneurship. The nationwide share of women entrepreneurs is only 27.5 percent and it is significantly lower in rural areas (14.9 percent).<sup>13</sup> Women also have unequal access to the state funded programs on business and entrepreneurship development. Romani women and women with disabilities have an even more disadvantaged position and are often excluded from the formal labor market.

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<sup>10</sup> Election Quotas in Moldova: Case Study, Center "Partnership for Development", 2011.

<sup>11</sup> UNDP, National Human Development Report Moldova, 2014.

<sup>12</sup> Time Use Survey, National Bureau of Statistics, 2013.

<sup>13</sup> "Conditions for enterprise creation and development: gender analysis", 1st Edition, Chisinau 2009, Elena Aculai

**Violence against women is a serious and widespread problem.** According to the study on Violence against women<sup>14</sup>, six in ten women have experienced some type of violence (psychological, physical or sexual) from husband/partner during their lifetime, and one in ten women has experienced economic violence at least once in her lifetime. Rural women, elderly women, and those separated or divorced reported the highest prevalence rate of multiple forms of violence. During its 2013 review of the Republic of Moldova, the CEDAW Committee expressed concerns about the high prevalence of violence against women, including domestic violence and rape, with particular concern for lack of protection for older women, Romani women, and women with disabilities. According to data from the Women’s Law Center, every fifth police officer does not know how to address cases of violence against women. Prosecution of rape does not yet comply with international standards.

**Gender-based stereotypes and roles are perpetuated in education, media and advertisement in Moldova.** Women are often expected to have the primary responsibility for the household and children. This stereotypical attitude towards women is further strengthened through the education system at all levels and perpetuated through media and advertisement. A gender review of media with nationwide coverage undertaken by the Association of Independent Press showed that only 20 percent of the analyzed articles presented men and women in a balanced manner. Education and media are the key entry points to address gender-based stereotypes in the society and effective policy and legislative measures with practical mechanisms for implementation are required.

*Priorities to be addressed and how to achieve them:*

*Short-term reforms (<100 days):*

- Provide an Action Plan for acting on the 2013 Concluding Observations concerning the Republic of Moldova of the UN Committee on the Elimination of Discrimination against Women;
- Adopt in final reading the draft legislative package, that includes quota representation of women in politics combined with the placement on the candidate’s list, sanctions for non-compliance, paternal leave and other important measures approved by the Government in May 2014;
- Promote women in politics and decision-making in public and private sectors at local and central level, whereby women from ethnic minorities, women with disabilities, elderly women and others underrepresented or disadvantaged effectively participate in elected offices and appointed bodies; and
- Expedite efforts to amend the Law on Preventing and Combating Family Violence to enable the issuance of police emergency protection orders and other measures as per the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence (CAHVIO).

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<sup>14</sup> Violence against women, NBS, 2011

Medium-/long-term reforms (<12 months/>12 months):

- Develop and adopt the first ever state program to support women in business with state financial support (guarantee funds, credits, capacity building) as a basis for small and medium enterprise growth, following regional and global best practices;
- Adopt and implement the National Roadmap on Gender Responsive Budgeting (as per the National Program on Gender Equality) in conformity with Law no. 181 on Public Finance and Budgetary and Fiscal Accountability;
- Ratify ILO Convention no. 189 concerning decent work for domestic workers, and Convention No 156 concerning workers with family responsibilities; Tackle gender gaps in particular in terms of pay, economic activity, career prospects, as well as design and implement measures for workers with family responsibilities for both men and women. With the prospect of a shrinking working-age population, increasing the labor force participation and raising the employment rate of women is paramount to counteract the decreasing of the workforce and boost growth. Enhance the state support to develop pre-school education system through diversified ownership, including by the private sector; legislate parental leave (as part of a package of legislative amendments on quota approved by the Government in May 2014);
- Review and revise the Criminal Code and other relevant law, in particular as concerns rape and other forms of gender-based violence. Strengthen enforcement of the Law on Preventing and Combating Family Violence, and other laws to ensure that all women and girls, including in particular older women, Romani women and girls, as well as women and girls with disabilities, are protected from violence and have access to immediate means of redress, including in the context of decentralization reform; adopt a system of emergency protection orders, to complement the existing system of court-ordered protection;
- Ratify CAHVIO; provide adequate assistance and protection to women victims of violence, including Romani women, migrant women, older women, women with disabilities, and others; and increase the number and funding of shelters and guarantee national coverage extending to women from rural areas and the left bank of the Nistru river;
- Promote women at decision-making levels in the justice sector, courts, police, police academy, and the armed forces, and create decent work conditions; provide mandatory training on gender equality for judges, prosecutors, police and other law enforcement officers in conformity with the international commitments and standards; ensure participation of women in peace and security platforms and dialogues, at least at 30 percent;
- Eliminate all forms of sex and gender-based discrimination throughout the education system and in informal education programs to remove gender stereotypes from education materials; introduce mandatory courses in all teacher training programs on how schooling reproduces gender inequalities; and ensure proper implementation of comprehensive sexuality education as per existing national legislation<sup>15</sup>;

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<sup>15</sup> Note: Law on Reproductive Health in 2012 in its Article 6 says that “Compulsory sexuality education and preparation for family life is carried out in educational institutions and in other institutions where there are adolescents and young people, including those with special needs, according to special developed programs, which are part of the compulsory curriculum of educational institutions, taking into account age, gender and psychosexual development features.”

- Adopt the Law on Publicity that aims, among other things, to prohibit the use of sexist advertisement and ensure its effective implementation; and
- Further enhance effective cooperation mechanism between the different gender equality bodies to ensure gender mainstreaming within all ministries and other governmental bodies at all levels and areas; enhance the effective coordination mechanism in gender issues of Moldova within the Department for Equal opportunities in the Ministry of Labor, Social Protection and Family by providing financial and legal instruments and human resources; Strengthen the Council on the prevention and elimination of discrimination and ensuring equality by giving it greater visibility and authority, access to information and the necessary human and financial resources to fully accomplish its responsibilities; Establish institutionalized consultation mechanism with CSO active in gender issues, at the level of central public authorities and local public authorities.

## CIVIL SOCIETY

**The active involvement of civil society in policymaking, reform, governance and service delivery will help Moldova to achieve its development objectives, including the implementation of the AA and DCFTA.** The main challenge is to reach a wider range of actors, including local civil society organizations (CSOs). In particular, the involvement of civil society broadly defined, including business associations, trade unions and chambers of commerce, will facilitate DCFTA reforms.

**The overall environment for CSOs has improved in the last years, with increased openness to CSO initiatives on the part of Government.** A highlight was the approval of the Civil Society Development Strategy, whose main objectives are: (i) the strengthening of CSO's role in monitoring policy implementation, (ii) addressing the financial sustainability of CSOs and (iii) the development of an active civic culture, volunteering and non-formal education. A permanent platform for dialogue was institutionalized in the shape of a National Participation Council. One can also highlight the role of the National Commission for Collective Consultations and Bargaining in monitoring Government policies and that of the NGO Council in monitoring the Parliament.

**Civil society in Moldova is concentrated in the capital<sup>16</sup> and bigger cities, being often disconnected from people, while remaining weaker in the regions and rural areas.** Lacking financing from the Government, access to information of public interest or civic engagement and people's confidence in the sector<sup>17</sup>, CSOs are donor-driven and adopt a fragmented, project-based approach limiting their impact. Despite an appropriate legal framework<sup>18</sup>, only 20 percent of the Strategy for civil society development has been implemented. Another key challenge is the ability of civil society to play its representative function and that of a critical watchdog in public life by supervising the implementation of governmental policies. As most advocacy organizations and think-tanks are in the capital while the regions are mostly home to service providing organizations, the monitoring of local public authorities remains weak.

**Civil society in the Transnistrian region** has experienced a distinctive development path. Non-governmental organizations are highly politicized and strongly controlled by the de facto authorities in place. They experience difficulties in accessing international funding since their registration in Transnistria is not internationally recognized and administrative problems remain in receiving funding from outside of Transnistria. The recent adoption of "foreign agents" terminology in local de facto legislation would make CSOs from the region even more vulnerable. Support to civil society in this region therefore requires special priorities and funding approaches, and mainly involves confidence-building measures between both sides of the Nistru River through joint projects in human rights, service delivery, business opportunities and social infrastructures.

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<sup>16</sup> According to the Strategy on Civil Society Development quoted above, in 2011, 8200 civil society organizations were registered, with 65 percent located in Chisinau (despite the fact that it only counts for 25 percent of country population). There are about 2500 CSOs registered in the Transnistrian region.

<sup>17</sup> According to latest IPP [public opinion poll](#) from November 18, 2014, the level of people confidence in civil society is of 26 percent.

<sup>18</sup> The legislative framework of civil society encourages its development and respect for the fundamental human rights such as freedom of assembly, freedom of opinion and expression, right to information and freedom of association.

Short-term recommendations:

- *Ensure implementation of relevant laws:* (i) 2 percent-law-funding support for CSO through fiscal redistributions – Law no. 158 of July 18, 2014; (ii) Law on Transparency in the Decision Making Process no. 239-XVI of November 13, 2008; (iii) Law on Accreditation of Social Services Providers Law no. 129 of June 8, 2012; (iv) Law of Access to Information no. 982 of May 11, 2000);
- *Systematically apply procedures for transparent decision-making* applying the Open Government and Open Data Principles in all public affairs, including in privatization and public tenders;
- *Establish a Civil Society Forum* to monitor implementation of both AA and DCFTA in accordance with the relevant provisions of the AA; and
- *Increase CSO participation in decision-making;* develop an institutionalized mechanism for CSOs to monitor implementation of laws (in line with the strategy). Introduce a mandatory system for central and local public authorities for consultation with the third sector. Improve the legal framework of the National Participation Council in order to give it more authority to advocate for the adoption of its recommendations. Introduce a clearly structured and mandatory consultation process between the Parliament and CSOs (National NGO Council); before a vote in the Parliament, the latter must publish laws sufficiently in advance with a clearly indicated timeframe, to give civil society the opportunity to express recommendations in accordance with Moldova’s commitment to the Open Government Partnership.

Long-term recommendations:

- *Institutionalize mechanisms for public funding for CSOs* (within ministries, the State Chancellery and local authorities) based on existing successful practice with the Ministry of Youth and Sports, the Ministry of Environment (through the Environment Fund) and the Ministry of Culture;
- *Improve the existing social dialogue* by strengthening the National Commission for Collective Consultations and Bargaining, sector commissions and territorial commissions, particularly enhancing the integration of a wider range of CSOs, along with the National Confederation of Moldovan Employers and the National Trade Union Confederation of Moldova. Strengthen employers’ organizations, which are the youngest actors of the social dialogue in Moldova, especially by creating and developing their capacities at the district and sector levels to engage meaningfully in collective bargaining;
- Further negotiate and *establish lasting partnerships between CSOs and the private sector to achieve corporate social responsibility;*
- *Initiate the elaboration of the new Strategy for Civil Society Development for 2016-2019/2020 in partnership with relevant CSO bodies, including CSOs from Transnistria;*
- *Develop a legal framework for effective advocacy* in close collaboration with civil society;
- *Remove institutional obstacles* to supporting Transnistrian NGOs; and
- *Further develop coordination between the Government and civil society,* including civil society from Transnistria, within the State Chancellery and different ministries. Enhance the coordination mechanism with international donors and organizations, government and CSOs.

## TRANSNISTRIA

### *Key Issues and Challenges:*

#### *Political relations*

The reintegration of the Republic of Moldova would contribute immensely to economic development and the living standards of the population by facilitating private sector activity and the upgrading of social services and infrastructure. Only two rounds of negotiations in the 5+2 format took place in 2014 (while 25 meetings of Working Groups and 11 meetings of Political Representatives of Chisinau and Tiraspol were held, with varying effectiveness), therefore 2015 should see efforts by the new Government in Chisinau at improving relations, getting the 5+2 process back on track, and agreeing upon the modalities for implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA) in the Transnistrian region, so as to prepare the ground for the reintegration of the Republic of Moldova. A reintegrated Republic of Moldova, with a special status for Transnistria, should be a national priority.

In the course of 2014, Chisinau has been concerned over the harassment of farmers in the Dubasari region where their land use rights were denied, with activities undermining the normal functioning of Latin-script schools and other entities under Chisinau's administration situated in the Transnistrian region. (The last months of 2014 saw progress on establishing a more stable operating environment for the Latin-script schools, but work remains to be done on this issue). In addition, the announced requirement for all vehicles entering Transnistria that are not registered there to obtain liability insurance was negatively perceived. Another element of concern is the decree recently signed by the Transnistrian *de facto* president envisaging the introduction of a fee-based permission regime for all non-resident persons entering Transnistria.

For its part, Tiraspol has expressed concerns with the opening of some 20 criminal cases on the right bank against Transnistrian *de facto* leadership, with what is perceived as growing impediments to Transnistrian economic agents (e.g. "KVINT") to conduct external economic activities, with the additional clearance entailing costly delays of Transnistria-bound imports at the Ukrainian border, with difficulties faced by some Transnistrian residents holding Russian passports when entering Ukraine as well as at Chisinau airport, with the short-term extension of the Railway Freight Protocol. Tiraspol has also expressed concerns with the absence of clarity as to the implementation of DCFTA in Transnistria (the Autonomous Trade Preferences expire at the end of 2015) in spite of several meetings between the representative of the DG Trade and the *de facto* administration.

#### *Economic situation in Transnistria*

In the course of 2014, the Transnistrian *de facto* leadership took a number of unpopular steps aimed at reducing budgetary expenditure. Transnistrians have faced public sector salary reductions, working time reduction, staff cuts, the freezing of social benefits at their current level, and even the elimination of some benefits, such as free public transportation for pensioners. A number of large enterprises have delayed paying salaries to their employees, in some cases for months.

In 2015, Transnistria's budgetary revenues are expected to amount to US\$140 million, while expenses are forecast to amount to US\$540 million. The situation in Ukraine, entailing economic hardship there, and especially the weakened Russian economy, with the Russian Federation

unlikely to be able to sustain its generous subsidies for Transnistria, aggravate the situation. Should current dynamics persist, Transnistria might face the risk of a total economic collapse, which would deal a massive setback to living standards in the region and political stability in the whole of Moldova.

The situation also opens a window of opportunity for positive engagement. Under the current circumstances, it is important to identify those issues that are key for positive steps forward.

Immediate reforms (<100 days):

- Publicly acknowledge Chisinau 's commitment to confidence-building (CB) between the two banks and voice at the highest levels that the reintegration of the Republic of Moldova is a top national priority;
- Propose a leaders' meeting as a matter of urgency and intensify meetings in the 1+1 format;
- Create conditions for resuming the 5+2 talks, examining and addressing the reasons for the current stalemate, including potentially by re-examining the approach to criminal cases open against *de facto* Transnistrian leadership;
- Re-examine the 2012 EUBAM technical proposal concerning the number plate and registration process for motor vehicles from Transnistria;
- Upgrade the status and resources of the Bureau for Reintegration to a well-staffed Ministry of Reintegration and revive the inter-ministerial Reintegration Council. Such a Ministry would have:
  - Improved communication and coordination with Ministries to manage working group activities and preparation for 1+1 meetings and 5+2 rounds;
  - The ability to respond to Transnistrian proposals in a constructive way by elaborating which competencies could be devolved to regional authorities;
  - A team of legal and financial experts to assess the impact of CB measure projects and settlement proposals and to draft any necessary implementing legislation;
  - The authority and capacity to provide an analysis on the potential impact of relevant draft laws and governmental decisions on the process of working towards the desired end state;
  - An effective public communication department to articulate the necessity of compromise and the benefits of reintegration to a right-bank audience and conduct a hearts-and-minds campaign directed at the Transnistrian population, speaking their language (Russian) and based on a positive vision of a shared future; and
  - A strategic planning department with regular input to and feedback from the Government's top leadership.
- Provide the Chisinau Political Representative (Deputy Prime Minister) with authority to coordinate relevant policies across other ministries;
- Prioritise measures aimed at reintegration in all policy fields by introducing relevant instructions to the line ministries;
- Start discussions on DCFTA implementation in Transnistria in a trilateral format (Chisinau-EU-Tiraspol) and agree upon a calendar and agenda items for 2015; and

- Extend the Railway Freight Agreement.

Short-term reforms (<12 months):

- Articulate a vision for the future special status of Transnistria with a clear offer as to the competences to be devolved to the region, taking into account past proposals, while respecting the integrity and sovereignty of the Republic of Moldova;
- Draft a 5-year Reintegration Action Plan to be based on the vision of the future settlement;
- Work out a mechanism for DCFTA implementation in Transnistria in the course of 2015 by offering concrete technical solutions on the ground detached from the larger political context;
- Put in place a national programme for national minority protection and integration that would be reassuring to the Transnistrians as a confidence-building measure and lessen their concerns of possible discrimination once part of a reintegrated state, as a first step in signalling to Transnistria that Chisinau is open to creating an inclusive environment;
- Ensure full implementation of the 1994 Law on the Gagauz Autonomy and create conditions in Gagauzia that would be reassuring for Transnistria;
- Together with Ukrainian partners, seek a solution ensuring freedom of movement of people and goods across international borders for Transnistrian residents and economic agents;
- Resume talks on the issue of use of farmlands in the Dubasari region and find a long-term solution to this problem;
- Find a viable mechanism allowing for the Apostille to be placed on diplomas issued by Transnistrian higher educational institutions;
- Create conditions for addressing within the Working Group on Education the long-standing problems hindering the normal and sustainable functioning of the Latin-script schools on the basis of the 2012 OSCE proposals on the Moldova Administered Latin Script Schools in Transnistria;
- Facilitate Transnistria's participation in European programmes such as e.g. Erasmus+, thus furthering the integration of the region into a European context; and
- Proactively maintain and strengthen the dialogue on human rights in Transnistria, to facilitate the implementation in a comprehensive manner of the recommendations of UN Senior Expert Thomas Hammarberg's report, as stated by the Government of Moldova to the UN General Assembly in September 2013;

Medium-term reforms (>12 months):

- Ensure the successful implementation of the Action Plan on Reintegration;
- Ensure that the gap in living standard between the two banks is reduced by continuing to encourage and support development partners' work on capacity building;
- Ensure the successful putting in place of an agreed mechanism for DCFTA implementation in Transnistria; and
- Adopt transitional legislation in all sectors allowing Transnistria to gradually realign with the legal space of the Republic of Moldova.

## POPULATION

**Moldova's population is changing – people-centered responses will benefit all.** Moldova's population, like many countries, is going through important demographic changes. This is characterized by low birth rates, high infertility and an ageing population and has economic and social implications such as in terms of social protection, including pensions. Some of the changes can be seen positively, for example life expectancy has increased in the last five years from 65.31 to 68.05 years for men and from 73.37 to 75.55 years for women.<sup>19</sup>

**Moldova can deal with these changes by focusing on the quality of its population.** The experience in the region and elsewhere shows countries are successful when they invest in health, education and job opportunities, especially for young people. Fertility rates can go up when investments are made in health and education and when family-friendly laws and programs are in place that allows women and men to reconcile work and having children. Family planning programs can also contribute to healthier populations, increased population numbers and a more productive society.

**While fertility is influenced by many factors, infertility is mainly a medical matter.** The fact that in Moldova there is a very high level of secondary infertility - one in five women who have already had one child are unable to have a second - needs to be further understood and addressed so that families can fulfil their desired fertility. The availability of family planning and access to age-appropriate education and services has been proven to ensure a reduction in sexually transmitted infections (STIs), including HIV, and unsafe abortion and this can also reduce infertility.

**Young people can be at the forefront of social transformation if provided with health services, quality education and decent job opportunities.** Their active and meaningful participation in public life is not yet fully fulfilled.

As an important basis for adopting people-centered policies, the quality of data collected and the links between demographic research and policymaking need to be strengthened.

### *Progress made:*

- A Roadmap on Ageing and an Implementation Plan for Mainstreaming Ageing into sectorial policies were developed and the National Program for Demographic Security is in place;
- A wide range of facilities and programs ensuring people's access to family planning and healthcare services were established, including 38 Youth Friendly Health Centers where more than 15,000 adolescents and youth benefited annually from information, services and commodities. A new Strategy for Youth Sector Development and a new Youth Law with participation of more than 750 young people give the opportunity for comprehensive framework for the development of the youth sector at local and national level;
- Demographic sector is coordinated at national level by a National Commission for Population and Development which brings together different ministries and government institutions, academia, NGOs and international partners such as UNFPA and the National Demographic Centre was established in 2011 to strengthen the policy response to population dynamics; and

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<sup>19</sup> National Bureau of Statistics, StatBank <http://statbank.statistica.md/pxweb/Dialog/Saveshow.asp>

- In 2014, the Population and, for the first time, Housing Census was carried out. National Bureau of Statistics made a substantial progress in conducting this national statistical exercise, by applying new instruments in Moldova in evaluation of the Population and Housing Census such as Post-Enumeration Survey. Policy makers together with civil society and media will have up-to-date population data in response to the needs of young people, elderly, minorities and vulnerable groups.

*Priorities to be addressed:*

Population changes are not a threat – but lack of preparation is.

Short-term reforms (<100 days):

- Identify a mechanism of assessing the impact of all policies in terms of the effect they will have on population patterns and incorporate population dynamics in sectorial policies to meet people's needs.

Medium-term reforms (<12 months):

- Ensure that young people have the best possible access to information, education and health so they can stay healthy and contribute effectively to the country's progress, including through their participation in decision-making and monitoring. This also includes providing youth with relevant information on labor markets to allow them to make informed schooling decisions. In response to an ageing population, active involvement of elderly in public life should remain a priority and, for that, new intergenerational mechanisms should be developed; and
- Strengthen the role of Parliament and the National Commission on Population and Development in monitoring implementation the existing plans and strategies; that the necessary funds are allocated; and that new policies are developed to European and international standards.

Long-term reforms (>12 months):

- Create conditions whereby families are able to make their own choices about how many and when to have children and so they can balance work/life; and
- Build a stronger research and data capacity within Moldovan institutions to be able to advise policy-makers on rights-based and evidence-based approaches for successful policies.

Sources:

- (i) ICPD At 20 Report by National Centre for Demographic Research, 2014.
- (ii) National Bureau of Statistics, June 3, 2014.
- (iii) National Bureau of Statistics, Stat Bank.
- (iv) [www.globalfertilitymap.com](http://www.globalfertilitymap.com); (v) [http://www.who.int/features/factfiles/sexually\\_transmitted\\_diseases/en/](http://www.who.int/features/factfiles/sexually_transmitted_diseases/en/)

## MIGRATION AND DEVELOPMENT

### *Key Issues and Challenges*

Widespread poverty and wage differentials with other countries cause many Moldovans to look for better opportunities abroad. An estimated one fourth of the working age population in Moldova is involved in permanent or circular migration.

**Emigration** has produced negative social effects on children and older persons left behind, in particular in rural areas.<sup>20</sup> Returning Moldovan emigrants face challenges in finding well-paid jobs based on their skills acquired abroad or repatriating their social benefits, as well as difficulties in participating in elections. On the other hand, remittances have helped to empower segments of previously disadvantaged groups,<sup>21</sup> reduce poverty, enhance schooling of children and boost local business environment. Women migrants remain a vulnerable group, as predominantly being involved in domestic work, and being exposed to domestic and sexual abuse, violence and discrimination.

Moldova is also a country of arrival of persons in need of **international protection**. The number of foreigners finding refuge in Moldova has been on the rise since 2012, mainly due to Syrians (176) and Ukrainians (5.475)<sup>22</sup> fleeing persecution or generalized violence. Despite increasing conformity of domestic law with international standards, the quality of protection and assistance to asylum-seekers and refugees, as well as state budget allocations for these areas, remain below the real needs. While the exact number of stateless persons in Moldova remains unclear, certain legal gaps and bureaucratic obstacles stand in the way of proper enforcement of the national statelessness determination procedure.

Moldova is also a country of arrival for **immigrant** workers (the number of labor permits issued to immigrant workers is on the rise, accounting for 842 in 2011, 972 in 2012 and 1067 in 2013)<sup>23</sup> and **irregular** immigrants. As yet, policy and law frameworks securing the rights and integration of third-country migrants are under-developed. While many third-country nationals have successfully integrated and are making durable contributions to Moldova's future, some face obstacles including rigid or exclusionary rules, hostile bureaucratic practices, and in some cases xenophobia. Development policies do not yet sufficiently foster immigration as a key component for Moldova's future development.

**Development challenges have generated a significant outflow of Moldovan citizens which impacts the sustainable development of the country. At the same time, not sufficiently adequate attention has yet been paid to the role of immigration policy for Moldova's development. Migration can be turned into a development enabler. Towards this goal, the authorities can integrate the migration and development agendas in a systematic and evidence-based fashion, on the understanding that both emigrants and immigrants are potentially important actors in the country's progress.**

### Short-term reforms (<100 days)

- Not applicable.

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<sup>20</sup> "Specific Needs of Children and Elderly Left Behind as a Consequence of Labor Migration" Study, Chisinau 2011, [http://iom.md/attachments/110\\_necesit\\_cop\\_virst\\_en.pdf](http://iom.md/attachments/110_necesit_cop_virst_en.pdf)

<sup>21</sup> "How Moldovan Households Manage Their Finances, Chisinau 2008, [http://iom.md/attachments/110\\_2009\\_01\\_19\\_how\\_moldovan\\_eng.pdf](http://iom.md/attachments/110_2009_01_19_how_moldovan_eng.pdf)

<sup>22</sup> <http://reliefweb.int/map/ukraine/ukraine-overview-population-displacement-12-december-2014>

<sup>23</sup> <http://bma.gov.md/content/6472>

Medium-term reforms (<12 months):

- Introduce diaspora and migration impact analysis, for ex-ante and ex-post public policy impact analysis, including from a gender perspective;
- Maximize the potential of remittances for development by formalizing transfer channels through extension of rapid money transfer systems to the national postal offices and by diversifying savings instruments;
- Develop frameworks (a) facilitating the reintegration of returned emigrants on the labor market, in mandatory health insurance and social security schemes and in the education system; (b) offering access to investment programs and enhanced entrepreneurial skills;
- Establish the mechanism for the validation of formal and informal learning to ensure in-country recognition of emigrants' and immigrants' skills acquired abroad;
- Foster the permanent and/or temporary return of highly-skilled emigrants (scientists, practitioners and graduates) through dedicated programs and/or diaspora networks, harnessing knowledge transfer; and
- Ensure adequate state budget allocations for the asylum and integration areas based on the needs of growing numbers of migrants, asylum-seekers and refugees in Moldova.

Long-term reforms (>12 months):

- Ratify the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families;
- Building on positive examples of bilateral labor migration and social protection agreements, further pursue dialogue with other countries of destination of Moldovan emigrants and ensure their enforcement;
- Continue to advocate pre-registration of Moldovan nationals voting abroad, thus facilitating their participation in the democratic process in Moldova;
- Promote quality sex-disaggregated data on migrants to ensure evidence-based and gender-sensitive policymaking;
- Actively pursue harnessing diaspora's human and social potential for development purposes, namely by developing new and continue implementing existing national programs also aimed at fostering the investing of remittances and emigrants' savings;
- Mainstream migration into local development policies and ensure that foreseen measures reach primary beneficiaries (migrants and members of their families);
- Address proactively the image of women migrants in society and media, debunking myths and showing the contribution they make to development;
- Consider a comprehensive administrative amnesty to adequately address the situation of in-situ stateless persons;
- Improve the quality of assistance to asylum-seekers, refugees and beneficiaries of humanitarian protection, by facilitating their access to social services, local integration programs and simplified naturalization procedures; and
- Review and amend the Law on Citizenship, to ensure all categories of non-citizens can seek and achieve integration in a manner securing their rights, as well as Moldova's development needs.

## LABOR MARKET REFORMS

### *Background and Key Challenges*

**Employment rates in Moldova are low compared to the 60-70 percent typical for countries.** The main reason is very low Labor Force Participation (LFP), which has decreased dramatically over the past ten years (from 53 percent to 41 percent). Many years of productive life are lost across all demographic groups. On the other hand, the general unemployment rate is rather low, standing at 5 percent in 2014; although unemployment among youth aged 15-24 is a more pressing problem, standing at 12 percent.

**The low employment rate is both a cause and a consequence of very high international migration – at the same time internal migration is low.** Moldova has very high rates of international migration (in 2013, according to conservative official statistics, about 14 percent of men and 8 percent of women of working age were working abroad or looking for work abroad). By contrast, internal mobility is low: less than 20 percent of the population aged 18 and older moved to a different city in the past 20 years.

**Productivity in Moldova is among the lowest in the region, reflecting an incomplete transition from a planned economy with a large primary sector, high informal employment, as well as education and low skills challenges.** Half the population in Moldova is still rural, and a quarter of the employed population works in agriculture, a sector where productivity is low. Low productivity is pervasive outside of agriculture as well. More than 40 percent of Moldovan firms report that “skills” have become a severe constraint to their growth. Additionally, informal employment is pervasive, with almost one in three workers in Moldova employed informally in 2013.

### *Moving Forward – Key Policy Areas for Attention*

**Demographic change is making labor market reform urgent.** The population in Moldova is ageing rapidly and decreasing. These demographic pressures threaten the sustainability of growth and financing of social protection. The gap between social protection spending and revenue from social security contributions amounts to 4 percent of GDP.

**To increase labor force participation, policies promoting competitiveness, reform of the Labor Code, taxation and productive use of remittances will all play a major role.** Competitiveness and transparency are key to job creation. On the supply side, reforming the Labor Code to increase labor market flexibility and simplifying rules for internships and part-time work could help increase LFP. Measures to support the productive investment of remittances and enhance entrepreneurship among return migrants or members of migrants' households could help retain them in the local labor market. These measures should include business training, advisory and support services.

**Investing in education (both general and vocational), skills-formation and supporting the National Employment Agency (NEA) are key to improving job quality and retaining workers.** The current unsatisfactory level of skills among the workforce is attributed to the lack of relevance of the education system to labor market needs and the lack of support to equip workers for new job opportunities. Active labor market policies should be guided towards retraining skills, fostering workers' mobility and providing the relevant labor market

information. In the specific case of agriculture, there is a need to better exploit the comparative advantage of Moldova through supporting a focus into production and markets with higher value.

**To reduce informal work, while “sticks” (inspections and fines) have a role, there is also a need to make formalization attractive.** Two-thirds of informally employed wage workers would not like to change their current situation. Hence, while there is room for inspections, there is a need for reforms that increase the benefits and reduce the cost of formalization. Simpler administrative procedures access to credit would help. There is also a need to make labor market regulations less burdensome to encourage formalization.

**The debate on the alignment of education with labor market – the top objective of the *Moldova 2020 Strategy* – needs to be grounded in solid evidence and there is a need to better identify other employment barriers.** The poor labor outcomes may come from little job creation but also from mismatches: in terms of skills and geography. However, there is lack of information on both accounts.

*Immediate reforms (<100 days):*

- Pass the existing draft law on changing the Labor Code; the draft law includes amendments aiming at making labor contracts more flexible, in particular fixed-term employment contracts, allowing trial periods for larger groups and suppressing the workers’ labor book;
- Increase incentives for formal work: increase income disregards in the design of social assistance;
- Approve a regulation for tax-exemption of firm training;
- Announce holiday shifts for 2015 and adopt regulation for holiday shifts for a given year to be announced by September of the previous year;
- Issue a directive to labor offices and other venues for work announcements and work facilitation to take a zero-tolerance approach to all forms of discrimination;
- Launch data collection and studies to measure the of education with labor market needs; and
- Launch data collection and studies on barriers to employment, in particular internal mobility.

*Short-term reforms (<12 months):*

- Review the processes of the NEA and active labor market policies (ALMPs), in particular for: (1) suitability of ALMPs for (a) youth, (b) elderly, (c) rural residents; and (2) entrepreneurship;
- Adopt a specific regulatory and tax treatment of internships for youth;
- Reduce the cost of formalization with: (1) simplified registration procedures for small firms, (2) online registration of workers;
- Establish the mechanism for the validation of informal and non-formal learning;
- Facilitate worker internal mobility by allowing NEA services to be attached to the actual residence and not the registered residence; and
- Adopt and implement the Action Plan on Occupational Safety and Health to reduce work accidents and occupational diseases.

Medium-term reforms (>12 months):

- Improve benefits of formalization with better access to credit for formal firms;
- Improve labor market matching: (1) set up an employment observatory with information on labor market trends, successful school-to-work transitions, and training programs; (2) launch information campaigns on career guidance; and (3) strengthen entrepreneurship development in education and training;
- Review the Law on Inclusion of Disabled People, ensuring fairness to the disabled but not imposing conditions that cannot be realistically met by firms;
- Review the Law on Temporary Incapacity to work. Law no. 289 needs clarifications of the rules regarding the circumstances of settlement, the calculation and payment of allowances based on the temporary inability to work, and other social security benefits;
- Further pursue and enforce bilateral migration agreements in order to foster the protection of Moldovan labor migrants; and
- Facilitate the reintegration of returned Moldovan emigrants, including those highly-skilled.

## EDUCATION REFORMS

### *Background and Key Challenges*

**Education outcomes are poor in Moldova: in absolute terms, compared to neighboring countries, and from an equity standpoint.** Moldova's 15 year olds performed at the bottom of Europe in the OECD's Programme for International Student Assessment (PISA) 2009. Overall, 57 percent of Moldova's students lack the basic levels of reading proficiency needed to participate effectively and productively in society. PISA results also showed that 15 year olds in rural schools are one full year of learning behind their urban counterparts. This is consistent with discrepancies in school enrollment rates at all levels between urban and rural students. Disadvantaged groups face even greater challenges. About 1,800 children with disabilities remain in special schools and more than half of Roma children are *de-facto* excluded from education or are educated in segregated environments.

**The education system is unable to produce the skills demanded by employers.** A 2013 survey of the National Confederation of Employers reported a low-skilled labor force and the current education and training system as key constraints; the Global Competitiveness index ranks Moldova 103 out of 144 for quality of training. Over 40 percent of firms report that "skills" are a severe constraint to their growth.

**A continuous demographic transition presents efficiency challenges and opportunities and reinforces the need to invest in quality relevant education to maximize the population potential.** Moldova's school-age population has decreased by more than half since 1991. The Government has taken critical steps toward improving resource allocation by adopting per capita financing and an enabling legislative framework. Sustaining and advancing these reforms with a focus on improving learning results is fundamental to improve the quality and efficiency of the education system.

### *Moving Forward – Key Policy Areas for Attention*

**The ongoing reorganization of the school network needs to be accompanied by application of minimum service quality standards.** In parallel to closing non-viable schools and transferring the student population, it is essential that "receiving" schools offer an adequate learning environment including physical space and the availability of educational inputs. *Accelerated consolidation and quality assurance should be prioritized.*

**The teaching force needs to be strengthened.** About one-third of the 32,000 teachers in Moldova's primary and secondary education institutions lack pedagogical certification and almost 15 percent are past retirement age. The teaching load is low by OECD standards, based on teaching hours, and there is a mismatch between teacher skills and school needs. Teacher salaries and career advancement opportunities are not appealing to attract and/or retain the most talented, and pre-service training needs to be revamped. There is no requirement or training in place to prepare principals to undertake the additional management responsibilities required under the new legislative framework. *Establishing career paths that attract and retain qualified professionals and reward performance, while dismissing underperforming teachers and principals, is key to increasing education quality.*

**The student assessment system needs to be revamped.** Reliable and timely data on student performance in national and international assessments provides important information on school

and system performance, and is a key tool in promoting accountability. Moldova lacks national sample-based student assessments and the yearly examinations applied at the end of 4th and 9th grades are inadequate to monitor quality of education. *Revising and strengthening assessment systems is fundamental both for policymaking and for increased accountability at the school level.*

**Policymaking needs to be grounded on up-to-date and reliable education statistics.** *The existing Education Management Information System (EMIS), an essential tool for informed policymaking, needs to be regularly updated and the quality of its data ensured.* Further, the EMIS should be extended to encompass all subsectors of the education system, not only the primary and secondary level. Finally, strengthening the statistical and analytical capacity of Ministry staff is a key activity.

**Strong accountability arrangements need to be in place.** While the Government has approved a legal framework that increases school autonomy, this needs to be accompanied by strong accountability mechanisms. *Consistently disclosing education performance data generated by the EMIS and from student assessments will promote accountability at all levels.*

Immediate reforms (<100 days):

- Approve action plan for development of inclusive education at all levels for 2015-2020;
- Implement system to closely monitor and prevent school drop outs;
- Continue right-sizing the school network through the application of per-capita budget allocations;
- Accelerate implementation of school quality assurance standards;
- Launch review of teachers' and school principals' policies;
- Launch review of national student assessments; and
- Resume student level data collection and update EMIS data.

Short-term reforms (<12 months):

- Develop the regulatory framework for the Education Code;
- Monitor students affected by school closures and ensure that they are adequately accommodated in neighboring schools;
- Ensure ethnic minorities rights to education, including non-erosion of linguistic minorities 'rights' to education in their own language, and continue the dialogue with affected communities;
- Implement school principal training program, with a focus on school management;
- Launch reform of teacher and director policies;
- Implement reforms to the national student assessment system to increase the reliability and credibility of results, and align with international standards and best practices;
- Continue the successful interventions in the early childhood education area including increasing access in rural areas and revising the early childhood development curriculum; and

- Develop frameworks facilitating the reintegration of returning migrants and their children in the education system.

Medium-term reforms (>12 months):

- Reform curriculum across educational cycles;
- Reform higher education, including its financing, to advance on implementing the Bologna Process and improve enrollment, and promote closer links to the labor market;
- Introduce routine skills-related surveys and impact evaluations of post-secondary programs, including tracer studies and graduate tracking system; and
- Expand EMIS to encompass all subsectors, not only the primary and secondary level.

## VOCATIONAL EDUCATION AND TRAINING

### *Background and Key Challenges*

The primary objective in vocational education is to improve the quality, efficiency, and relevance of the education and training system to meet the needs of the labor market. Aligning the vocational education system to labor market needs would raise labor productivity, attract investment and increase employment. Demographic decline and outmigration make the need for better skills especially urgent. An adequate and well-skilled labor force will be even more important as the AA brings new competitive pressures.

However, the Moldovan vocational training system is neither attractive for students nor for employers. The numbers of Vocational Education and Training (VET) graduates' numbers have dropped significantly since the year 2000. The vocational education and training system lacks relevance to the labor market. Qualifications are often outdated, and curricula very theoretical, while VET is expected to be practical and job-oriented. The VET sector also has significant investment needs in terms of physical assets, knowledge and competences.

### *Moving Forward – Key Policy Areas for Attention*

**The main challenge is to implement the VET development strategy and the action plan.** As part of the Moldova 2020 National Development Strategy, the last Government was committed to continuing the reform of vocational and education training. A strategic framework – the VET development strategy and its action plan – was adopted to bring the VET system in line with the economy's requirements.

**The reform agenda in VET is ambitious and needs the full attention of government and social partners.** The budget support allocated by the EU for the reform of the VET system provides a useful framework for reform. The Government should allocate sufficient resources to the reforms' implementation. To satisfy their objectives, efforts should be made to ensure that the performance indicators are achieved not only on a quantitative but also on a qualitative point of view.

**The structural and institutional reform of the vocational education and training system needs to be accelerated.** The restructuring should secure a high quality of VET services, both in terms of knowledge and competence, and physical assets.

**Another key VET sub-area is the continuing vocational education.** Despite a well-advanced legal framework, continuing vocational education is not very advanced. Emphasis should be put on fostering private sector initiatives by means of an incentives-based policy built on a close cooperation with enterprises and labor representatives.

### *Immediate reforms (<100 days):*

- Reaffirm commitment to the VET strategy and VET reform process;
- Develop a work plan for the full implementation of the new Education Code;
- Approve the VET Restructuring Plan; and
- Allocate sufficient resources and ensure the optimal conditions to meet the requirements of the EU's VET budget support.

Short-term reforms (<12 months):

- Adopt the necessary implementation measures/regulations for the full implementation of the new Education Code;
- Start the implementation of the VET restructuring plan;
- Finalize the setting up of the National Agency for Quality Assurance for Higher Education and VET;
- Continue the development of occupational standards, qualifications and curricula;
- Extend practice-oriented VET and work-based training, including by the development and the implementation of the legal framework;
- Set the framework for the modernization of teaching materials in line with the new curricula;
- Finalize the preparatory work for the establishment of the Centers of Excellence;
- Strengthen existing and create new Sector committees, including standardization of their composition for them to become the main social dialogue actor at sector level;
- Increase the accountability of the VET system, including by the implementation of a participatory approach and the involvement of social partners;
- Explain the reform and ensure the mitigation of the side-effects of the VET network reorganization by measures negotiated with local communities;
- Introduce adequate and transparent allocation of resources based on quality and results in line with the new funding mechanism; and
- Reinforce the coordination role of the Ministry.

Medium-term reforms (>12 months):

- Make the sector committees functional and sustainable;
- Continue the development of a full Qualification Framework;
- Ensure regular development and update of occupational and qualification standards and curricula;
- Increase the cooperation between the VET system and the private sector;
- Modernize career guidance and ensure efficient career counselling;
- Finance equipment including consumables for VET schools;
- Generalize the use of a monitoring information system for the VET sector;
- Reinforce the involvement of training providers into the VET system;
- Improve the human resources development policy including implementation of training plan(s);
- Make available mid-term and long term labor market forecasts; and
- Clarify ministerial tasks and responsibilities in the VET system.

## HEALTH REFORMS

### *Key Challenges*

**A country with Moldova’s national income and high health expenditure (relative to the country GDP) should have better health outcomes.** Relatively high levels of health expenditure have had little impact on health indicators due to poor planning, suboptimal allocation of resources within the health sector, low performance of the health system, and limited capacity of human resources in health. Out-of-pocket payment remains high at 45 percent of total health expenditure. Low performance has resulted in low patient satisfaction.

**Non-communicable diseases (NCDs) are a major health challenge,** especially among the working population, with significant welfare and economic costs. Widespread NCD risk factors include tobacco and alcohol consumption, unhealthy diet, hypertension and obesity. Mental health is another critical issue, requiring reforms to comply with the Convention on the Rights of Persons with Disabilities.

**The communicable disease agenda is unfinished.** Progress in the control of tuberculosis (TB) and HIV/AIDS is slow. HIV/AIDS incidence and TB-associated mortality is rising. Around half of TB patients are infected with multi-drug resistant TB, placing Moldova among the 18 “high TB burden” countries globally. Vaccination rates are also dropping. Main problems include the unattractiveness of services to patients, service delivery limited to big cities, and failure to tackle the multifaceted needs of the sick, including stigmatization and discrimination.

**The health system is imbalanced.** There are too many acute care beds in Chisinau. Funds for hospitals (over 50 percent of the health budget) are spread thinly over 73 public hospitals, which are often underutilized and even unsafe. Too many patients go directly to hospitals, including many who should be treated at the primary care level. The public health service still prioritizes communicable diseases over NCDs. Hospital financing still follows historical allocations while Diagnostic Related Groups (DRGs) have not been fully utilized for hospital payments.

**The health insurance system needs adjustment.** More than 40 percent of the poor are not insured and 45 percent of health spending is from patients’ pockets. Even for those insured, it is difficult for the National Health Insurance Company (CNAM) to fulfill the Government’s promise of free healthcare. This is because: (a) the benefit package is too expensive for CNAM’s budget, (b) too many population categories get free insurance, and (c) CNAM is not allowed to do strategic purchasing of health services from medical institutions.

### *Suggested policy priorities*

**Raising tobacco and alcohol taxes** (most cost effective intervention) will reduce tobacco and alcohol consumption and will increase government revenue. The Government’s roadmap could be much bolder to bring the tobacco tax level to at least 75 percent of the cigarette retail price.

**Improving hospital efficiency and strengthening primary care for NCDs:** This means hospital reorganization, autonomy and accountability. As a first step, establishment of a common management structure for hospitals in Chisinau will reduce duplication and will improve efficiency. Also, primary healthcare shall be made more accountable for the prevention and outpatient management of chronic conditions. Family planning services should be integrated into primary healthcare. As staffing in rural primary care institutions is still an issue, career development mechanisms and financial incentives could help attract qualified professionals.

**A review of and choices within the benefit package will need to be made**, e.g. the Government should remove selected costly interventions and redirect savings to outpatient drugs.

**Revising outpatient drug benefits:** A plan is needed to gradually increase the budget allocation for the outpatient drug benefit package, while making medicines affordable. A first step is to increase reimbursement rates for generic drugs to treat common NCDs such as hypertension and consider increasing drug benefits for children aged 5+ with a focus on most common diseases.

**Providers (including doctors, nurses, and support staff) must be held accountable for results** – both in terms of quantity and quality. The performance-based incentive scheme in family medicine needs to be strengthened to include pay-for-quality and pay-for-efficiency. Family doctors should be held accountable for unnecessary hospital admissions. A similar performance-based incentive scheme also needs to be introduced in hospitals. The Government should enlist CSOs to help monitor provider performance. Harsher penalties need to be introduced for all staff who elicit informal payments for services formally covered by insurance.

**Better targeting of the poor and vulnerable groups:** With 15 population categories for insurance premium exemption (whose premiums are covered by general budget transfers to CNAM), the majority of the insured do not contribute to the national health insurance scheme. On the other hand, more than 40 percent of the poor are still not insured.

**Better control of communicable diseases and implementation of International Health Regulations (IHR):** TB prevention and control could be improved through an integrated approach, tackling the social determinants of health. Better access to HIV prevention, diagnosis, treatment, and care for all has to be ensured. Strengthening the routine immunization program will enforce control of vaccine preventable diseases. Overall infection control in health facilities has to be improved to reduce nosocomial infections. The Government shall further build its core competencies to deal with acute public health events under the World Health Organization IHR.

**Improving population awareness on difficult reform issues, public health issues, and healthy behaviors in particular.** Communication priorities include: revision of premium exemption categories, hospital rationalization, reduction of tobacco and alcohol consumption.

**Better use of data for decision-making.** Lots of data are collected but are not well organized or used. Data availability and use need to be improved by reforming health data collection and management, and the best available research evidence should be integrated into decision-making.

*Immediate reforms (<100 days):*

- Approve the tobacco control package of laws and revise the draft alcohol control package of laws;
- Approve the revised national health strategy with hospital rationalization measures (e.g. create health zones, identify hub hospitals, common management structures for hospitals in Chisinau, reform the hospital referral mechanism, accreditation and licensing standards, and capital investment strategies), applying as appropriate earlier analysis of the Chisinau Masterplan, 2009 Hospital Masterplan, and 2012 accelerated reform Roadmap;
- Initiate analysis and develop options for health regulation changes;
- Increase budget allocations to public health programs and primary care;

- Improve the drug benefit package to help reduce out-of-pocket payment, starting with package revisions to increase the reimbursement rate for most common generic anti-hypertensive drugs and statins; and
- Initiate the alignment of national legislation and practices on medicines and medical devices with international standards and good practices.

Short-term reforms (<12 months):

- Conduct public communication campaigns on tobacco and alcohol, increase tobacco and alcohol taxes, and approve the alcohol control package of laws;
- Create common management structures for public hospitals in Chisinau;
- Revise governance, management and service provision in primary care to enhance autonomy and accountability;
- Assign strategic purchasing to CNAM in line with national health policy objectives;
- Increase the DRG share in total payment by CNAM to public hospitals, and implement an annual audit of DRG payment for hospitals and quality of services;
- Introduce sanction mechanisms against hospitals with confirmed informal payment cases and adopt zero-tolerance policies for corruption involving serious human rights' violations;
- Revise the performance-based incentive scheme for family medicine with a focus on disease prevention, early identification, and quality of disease management;
- Develop a plan for quality improvements in family medicine and hospitals;
- Implement the public health strategy and services' regionalization, with a focus on population health and coordination at local level, and implement the AA provisions on public health improvement;
- Approximate health standards and support the dialogue between both banks of Nistru River;
- Act on commitments to transform mental healthcare and step up development of community-based services;
- Build cross-sector preparedness for health emergencies; and
- Continue the transparent dialogue and coordination with international and development partners supporting the health sector.

Medium-term reforms (>12 months):

- Design and pilot the performance-based incentive scheme for hospitals;
- Further rationalize hospitals in Chisinau and reduce acute care beds;
- Roll out hospital regionalization outside Chisinau, by creating one regional hospital and by re-profiling other hospitals in neighboring districts;
- Reform health financing mechanism: revise the insurance premium exemption categories, and limit free benefit package to something affordable;
- Continue the reform path and implement the AA, national health policy, health care system strategy, and programs addressing priority diseases and risk factors; and
- Roll out the plan for quality improvements in family medicine and hospitals.

## TARGETING SOCIAL SAFETY NETS (SSN) TO THE POOR

### *Key Issues and Challenges*

**Moldova's system of non-contributory social assistance has undergone major reforms and attained important results.** The reforms launched in 2009-2010 helped strengthen the financial sustainability and equity of the social assistance system with the introduction of targeted cash transfers such as Ajutor Social and Heating Allowance and the elimination of some inefficient categorical benefits. Since then, overall social assistance spending has declined from 2.6 percent of GDP in 2010 to 1.6 percent of GDP in 2013 which is close to the Europe and Central Asia average. Thanks to a strong expansion of targeted cash transfers in 2011-2012, the share of overall social assistance benefits going to the poorest 20 percent of the population improved from 42.5 percent to 44.1 percent. The elimination of costly and poorly targeted Nominative Compensations in 2012 improved the spending efficiency and fiscal sustainability of the social safety net.

**After the achievements of 2009-2012, the reforms began to run off-course.** After 2012 the number of beneficiaries of targeted cash transfers started to shrink due to various factors, including the increase of categorical benefits and pension top-ups which are not well-targeted and, hence, might end up benefiting better-off households. The boosting of categorical transfers continued in 2014, which may increase the social assistance costs to two percent of GDP without significantly helping the poor. More importantly, the contraction of the Ajutor Social program may prevent it from cushioning the impact of the fruit export embargo on rural households. (There are policy recommendations below to cushion the impact of the fruit embargo on vulnerable rural households and to strengthen the social assistance system performance.)

**It is important for the Government to revive social assistance reform,** which includes reducing category-based benefits to pay for more targeted cash transfers.

### *Recommendations*

#### Immediate reforms (<100 days):

- Increase access to Ajutor Social for households engaged in subsistence farming and/or self-employed in agriculture by: (i) ignoring any land classified as 'orchard' in applicant's household income, (ii) disregarding any agricultural income for households consisting solely of members not able to work, and (iii) dropping the rule that day laborers or the self-employed without a formal contract have to register as unemployed to apply for Ajutor Social;
- Disregard more income when determining someone's eligibility for Ajutor Social to strengthen incentives for formal paid employment; and
- Better outreach for the Ajutor Social and Heating Allowance programs.

#### Short-term reforms (<12 months):

- Continue rationalizing category-based benefits to save money for more targeted cash transfers; and
- Set rules for adjustment of Ajutor Social eligibility parameters (Guaranteed Minimum Income, proxy threshold) to stop the number of eligible households from falling.

Medium-term reforms (>12 months):

- Introduce a new business model and service delivery standards in local social assistance departments;
- Enhance the institutional capacity and authority of the Social Inspectorate to strengthen its analytical and law enforcement functions; and
- Help Ajutor Social beneficiaries to find work and reduce their dependency on social assistance.

## PENSION SYSTEM REFORM

### *Key Issues and Challenges*

**The current Pay-As-You-Go (PAYG) pension system in Moldova pays inadequate benefits, struggles with compliance, and provides weak incentives to contribute.** Its cost has grown significantly: in 1999, pension outlays accounted for 4.4 percent of GDP while in 2013 they reached 8 percent of GDP. The cost increases have opened a gap in the social insurance budget. As a result, the state budget covers about 10 percent of social insurance expenditures. The shrinking contributors' base, in combination with the high number of pensioners, has driven up the system-dependency ratio from 41 pensioners per 100 insured persons in 2002 to 78 in 2012.

**The minimum pension policy** attempts to protect the living standards of low-income retirees, mainly farmers and the self-employed. However, this policy compresses the benefits structure. It weakens the linkage between contributions and the level of pensions and hence discourages contribution. Moreover, frequent discretionary increases in minimum pensions undermine the fiscal sustainability of the pension system. Protecting the elderly poor via targeted social assistance programs would be more cost-efficient than raising the minimum pension.

**Reform is long overdue and the costs of inaction are growing.** Some reforms were introduced in 1998. However, after a few years of successful implementation, they were suspended. An increase in the women's retirement age was put on hold in 2003. The pension benefit formula has been overwhelmed by the ad-hoc recalculation of pensions on top of the regular indexation of benefits. Since 1999 the salaries used to calculate the salary base in pension benefit formula have not been revalued or valorized to account for cumulative growth of average wage between when the salary was earned and the date of retirement. Instead, an increased accrual rate (percentage of a person's past salary per year of contribution) was applied to nominal salaries which decreased the share of wage replaced by pension. In 2011, pension legislation was amended to gradually extend the contribution period required for old-age pension and to increase the retirement age for special pensions such as for instance, civil servants. However, the recent changes have been insufficient. If the current pension system is not reformed the gap between people's earnings and their pensions will grow and the system will not be socially or politically sustainable.

**The Government of Moldova should NOT introduce a fully-funded pension scheme (the second pillar) until it has fixed PAYG and has developed financial markets regulatory capacity, institutions, and practices.** PAYG system reform would improve its long-run social and fiscal sustainability and permit the fully-funded scheme to be created in the long run. A mandatory second pillar would require a sustainable PAYG pillar, functioning capital markets, adequate regulatory and supervision capacity, and a stable macroeconomic framework. None of these conditions have been met.

### *Immediate reforms (<100 days):*

- Revisit the pension formula to: (i) revalue salary base for cumulative growth of average wage between when the salary was earned and the date of retirement, (ii) lower accrual rate, and (iii) revisit/index pension benefits by price growth. This combination of parametric changes would improve the pension adequacy of new beneficiaries and maintain the real value (purchasing power) of future pensions; and

- Send out annual statements to the insured about their contributions and accrued pension rights.

Short-term reforms (<12 months):

- Avoid increases and/or introduction of supplemental pension benefits;
- Gradually raise the retirement age for women to equalize it with men at 62;
- Reduce special and privileged pensions by convergence to the general pension regime;
- Introduce vocational rehabilitation for people of working age applying for disability pensions and develop corresponding capacity; and
- Unify contribution rates by abolishing flat contributions, defining adequate contribution bases for self-employed and agricultural businesses and introducing flexible arrangements for contribution payment.

Medium-term reforms (>12 months):

- Raise retirement age for both genders up to 65;
- Consider turning the minimum social insurance pensions into a basic pension funded out of general revenues to protect the growing uncovered population (e.g. farmers) from poverty in the old age;
- Pursue policies aimed at higher participation in employment and reduced informality (see note on labor market), higher contribution collection and compliance as well as better working environment for longer working lives;
- Improve statistics on age structures and population dynamics for policy formulation;
- Introduce fiscal measures necessary to establish space for financing costs of transition towards a multi-pillar system, including revision of social transfers, with a particular focus on reducing the benefit trap and the unemployment trap;
- Develop financial markets regulatory capacity, institutions, practices (e.g. asset management, custodianship), and strengthen the financial literacy of the population; and
- Sign bilateral social protection agreements with recipient countries for Moldovan labor migrants and ensure enforcement of the agreements already signed.

## NATIONAL ENERGY SECURITY

### *Key Issues and Challenges*

**Dependence on energy imports exposes Moldova to energy supply security risk.** In 2011, 97 percent of total primary energy needs were met by imports. Natural gas dominates the primary energy balance at 64 percent of Total Primary Energy Supply (TPES), and is almost all supplied from Russia. The risk of gas supply security was vividly apparent in 2009, when Moldovagaz halted gas supply to Moldova over payment arrears. Negotiations on debt restructuring have not been completed and the outstanding debt still exposes Moldova to risk of further supply disruption.

**Limited sources of electricity imports also expose Moldova to oligopolistic pricing, as well as supply security concerns.** Around 25 percent of Moldova's electricity demand is met by domestic generation, and the rest is mostly provided by MGRES and Ukraine. In addition, not only all domestic Combined Heating and Power (CHP) plants, but also MGRES and Ukraine depend on Russian gas. Moldova joined the Energy Community in 2010 after having implemented major and highly successful sector reforms. However, its electric power system is physically still part of the Integrated Power System/Unified Power System of Russia (IPS/UPS)<sup>24</sup> and is effectively not interconnected with EU networks. This exposes Moldova to oligopolistic pricing for electricity by Ukraine and MGRES.

**Inefficient management and obsolete infrastructure make electricity and district heating (DH) expensive for the poor and vulnerable.** Surveys showed that all income quintiles except for the highest income group can be considered to be under "energy poverty" – where energy expenses have taken up more than 10 percent of expendable household income. Obsolete infrastructure also means poor quality service. Many better-off households have disconnected themselves from the District Heating (DH) network because the service is poor. The result is that about 40 percent of current consumers of district heating (or 160,000 households) in Chisinau who have no other options for heating, is required to carry the overhead costs of an inefficient service. The high cost of electricity is also impacting the competitiveness of the economy.

**Inefficient energy use raises energy costs for industries and residents, posing a serious bottleneck to growth and competitiveness.** Despite the fact that energy intensity was almost halved since 1990 due to the decline of industrial production, Moldova remains one of the most energy intensive economies in the region. In fact, Moldova uses more than twice as much energy per dollar of GDP than Romania and the OECD. Increasing energy efficiency will reduce energy poverty, energy insecurity and the cost of energy imports. Please see the separate note on energy efficiency for recommendations.

#### *Immediate reforms (<100 days):*

- **Complete the District Heating sector reform and the corporate restructuring of Termocom and CHPs**, which include; (a) closing CHP-1 operations, and (b) retrenchment of staff identified as redundant; and
- **Initiate debt restructuring with Moldovagaz**, which include: (a) identification of repayment sources, (b) exploring the possibility of external financing with a World Bank

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<sup>24</sup> IPS – Integrated Power System (Ukraine, Kazakhstan, Kyrgyzstan, Belarus, Azerbaijan, Tajikistan, Georgia, Moldova and Mongolia)/UPS – Unified Power System (Russia).

Partial Credit Guarantee (PCG), and (c) agreeing on a restructuring plan with Moldovagaz.

Short-term reforms (<12 months):

- **Review tariff-setting procedures and methodology, and ensure full compliance with the procedures and methodologies**, established by the National Regulator (ANRE);
- **Implement the recommendations in the *Social Protection policy note* to help the vulnerable cope with “energy poverty”;**
- **Take concrete steps in the outstanding work for full compliance with the “third package” as required under the Energy Community Treaty;**
- **Explore diversification of Moldova’s energy supply through regional integration**, which include: (a) interconnection options with the European grid to diversify electricity supply (please see forthcoming 2014 World Bank report for more detailed guidance), and (b) interconnection with the European gas network by operationalizing Iasi-Ungheni pipeline and preparing the ground for Ungheni-Chisinau prolongation; and
- **Identify and implement priority investments in domestic electricity and gas transmission capacity to enable the stable operation of the system after interconnection.**

Medium-term reforms (>12 months):

- **Take actions to enable completion of interconnection with the European energy system:**
  - (a) Seek assistance from International Financial Institutions in financing the required priority investments;
  - (b) Implement capacity building for both ANRE and Moldelectrica that will enable them to take on the additional responsibilities under the new market model; and
  - (c) Implement the required additional legal and regulatory revisions.
- **Complete the outstanding work on full compliance with the “third package” as required under the Energy Community Treaty;**
- **Review the current framework for energy efficiency** and explore how it could be improved (please see separate note on energy efficiency and renewable energy); and
- **Explore alternative indigenous energy sources**, which will contribute to the fulfillment of international commitments on clean energy and will reduce dependence on energy imports (please see separate note on energy efficiency and renewable energy).

## ENERGY EFFICIENCY AND RENEWABLE ENERGY

### *Key Issues and Challenges*

**Around 96 percent of the Republic of Moldova's primary energy needs are met from imports.**<sup>25</sup> This makes the country extremely vulnerable in terms of energy security and economic stability. Furthermore, natural gas accounts for nearly 60 percent of the total primary energy supply.<sup>26</sup> About 2.6 percent of total primary energy supply is met from renewables (waste and biomass).<sup>27</sup>

**Rapidly increasing energy prices over the past 10 years exceed consumers' ability to pay.** Energy's share of the budgets of public institutions is growing rapidly. There is a very strong argument for implementing energy efficiency (EE) measures in order to offset the negative impact of current energy prices.

**Climate change is also a pressing issue** as its negative effects have become more manifest in recent years. The inefficient use of fossil energy is one of the main sources of environmental pollution.

**The building sector is the core priority for the national EE agenda**, given that it accounts for 50 percent of final energy use, depends on fossil fuels and is energy-inefficient. Most buildings and infrastructure require capital repairs and the introduction of energy efficiency measures. Also, the mobilization of households for thermal retrofit/EE improvements of multi-family dwellings remains a huge challenge for the country.

**Increasing energy efficiency can contribute to addressing the problems mentioned above:** improving energy security, reducing the impact of higher energy prices and reducing emissions of greenhouse gases, as well as enhancing economic competitiveness.

**Renewable energy (RE) is being actively promoted to diversify supply and the relevant policy and legal framework has been put in place.** While the local market for biomass fuel and technologies is rapidly evolving, attention needs to be given to ensuring the quality of locally produced biofuel.

### Short-term recommendations (<100 days):

- Approve the new Law on Promotion of Energy from Renewable Sources;
- Approve the Government Decisions with annexed regulations for energy labelling of five energy-related products and eco-design of seven other energy-related products;
- Draft Government decision for certification of installers of small-scale RE installations;
- Establish a National Inter-Ministerial Council for Energy Efficiency to review current status and monitor progress on implementation of policy;
- Support a continuous, transparent, participatory and repeatable process of regional sector planning, programming, and project identification in energy efficiency in public buildings;
- Develop the methodology and introduce energy performance certificates in public buildings;

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<sup>25</sup> 2012 data; <http://www.iea.org/statistics/statisticsearch/report/?year=2012&country=MOLDOVA&product=Indicators>

<sup>27</sup> 2012 data; <http://www.iea.org/statistics/statisticsearch/report/?year=2012&country=MOLDOVA&product=Indicators>

- Develop a methodology and guideline on development of raion EE programs and action plans; and
- Initiate the development of a national program targeting the development of the biomass sector. Consider applying the same 8 percent VAT rate to locally produced biofuel, as for natural gas. Consider extending the VAT exemption applied for agricultural equipment to biomass processing, briquetting and pelleting equipment.

*Medium-term reforms (<12 months):*

- Approve the Government Decision on amending the existing regulation and revising/rationalizing the Energy Efficiency Fund's operations;
- Draft and approve energy efficiency criteria in the context of public procurement (construction components such as windows, boilers, white goods, office equipment, etc.);
- Develop and approve secondary legislation on energy performance of buildings, including the National Programme and Action Plan on Improving the Energy Performance of Buildings;
- Approve the secondary legislation regarding the draft Law on Promotion of Renewable Energy Sources (Regulation for the Energy Efficiency Fund, Regulation of tendering renewable energy investments, Regulation for certification of installers of small scale RE installations);
- Adjust the Public Procurement Law and practices by introducing provisions for greening public procurement for goods, services and construction by applying a life cycle approach, and train public procurement managers at the national and local level;
- Develop raion programs and action plans on energy efficiency;
- Develop the guidelines for: thermal rehabilitation and construction of buildings, implementation of energy management systems at local public administration level, and energy service companies (ESCOs);
- Improve the capacity development program for energy managers of raions;
- Develop methods and improve national statistics on building stock and energy consumption, renewable energy production and consumption, including agricultural and wood biomass ensuring systematic estimation of biomass potential, etc.;
- Introduce a system to facilitate import and/or local assembly/production of EE and RES best available technologies, such as VAT reductions, exemption of import taxes, etc.;
- Extend the agricultural subsidy policy in support of developing the national biomass for energy market, ensuring the availability of suitable raw materials;
- Identify and authorize a laboratory for quality control and certification of local biomass fuel, according to EU standards;
- Widen public and private financing in support of EE measures;
- Prepare for accessing international climate finance, e.g. from the Green Climate Fund (<http://news.gcfund.org/>), for the implementation of energy sector policies, including through preparation of Nationally Appropriate Mitigation Actions (NAMAs); and

- Launch awareness raising campaign for energy related issues in buildings.

Long-term reforms (>12 months):

- Adjust existing standards and norms on the construction and thermal rehabilitation of buildings Create a legal framework for energy services provided by external companies (ESCOs) in the public and private sector;
- Proceed with the implementation of the vocational education and training (VET) reform, ensuring a labor force fit for implementing energy efficiency and renewable energy policies, including higher education curricula;
- Establish an incentives program to mobilize households for thermal retrofit/EE improvements of multi-apartment/multi-family buildings; and
- Introduce incentives in the financial sector to support energy efficiency project financing.

## TRANSPORT AND LOGISTICS

### *Key Issues and Challenges*

**Moldova's transport sector is a key contributor to competitiveness and alignment with the EU in the context of the Association Agreement.**

**The Transport and Logistics Strategy (TLS) 2013-2022, and the Transport Chapter in the FTA Action Plan are key documents.** The TLS supports the harmonization of Moldova's Transport system and legislation with EU standards, legislation and regulations. It builds on the Land Transport Infrastructure Strategy (LTIS) for 2008-2017 that covers road and rail. The 2013 TLS goes further to cover trade facilitation, customs and borders, airports and aviation, ports, and maritime/river transport. The AA action plan for transport specifically builds on the TLS.

**The National Road Sector Program of Moldova is on track towards major rehabilitation and improvement of the network of main roads.** It is funded by the national budget and development partners, especially the European Bank of Reconstruction and Development (EBRD), European Investment Bank (EIB), Millennium Challenge Corporation (MCC) and the EU. Extensive rehabilitation is planned for 2015-2016. The main short-term challenges for the State Roads Administration (SRA) are to avoid delays and over-stretched capacity.

**Despite progress on main roads, much remains to be done in improving local roads in rural areas.** Under-investment since 1992 has resulted in a poor condition of the local road network. A Local Roads Sector Program should take into account the financial constraints, socio-economic viability and the changing demographics in rural areas. It will need to address: (1) inadequate planning and prioritization of investments; (2) insufficient institutional capacity to implement a local roads program; (3) shortage of finance to cover the maintenance and investments requirements; and, (4) absence of appropriate technical standards and management procedures for local roads.

**Road safety is a serious problem in Moldova despite the National Road Safety strategy.** The National Strategy for Road Safety, per Government Decision 972 of December 21, 2011, includes many significant advances, among which are the establishment of road safety budgets and special attention to protect vulnerable road users. Government statistics show a significant reduction in accidents, deaths and injuries in 2013. However, the Government needs a champion of road safety that can coordinate the many stakeholders within and outside the Government to address engineering, education, and enforcement, also in accordance with the Ten-T road safety directive of the EU. Moreover, improvements to local roads may lead to faster driving, so improvements to local roads must include special consideration of road safety.

**The long and difficult reform of road maintenance funding has finally led to tangible results.** Funds for road maintenance have increased considerably to a realistic level in 2013. However, more money is needed in accordance with the Transport and Logistics Strategy to ensure sustainable road maintenance.

**The new TLS concludes that there is no point investing in rail until the sector is restructured.** The Moldovan Railway Company (CFM) is not commercially viable because it is underfunded and has obsolete rolling stock and dilapidated infrastructure. The Development Partners have agreed to support the railway restructuring reform process, enhance the efficiency of passenger services, and improve the overall performance of railway operations.

**The airport terminal will shortly reach its capacity limit and will require substantial investment to accommodate future demand.** This investment, for which the airport does not have the funds, could be carried out by the private sector after restructuring and award of a concession contract. On the regulatory side, there are no major problems. However, Moldova has committed itself to the European Common Aviation Area (ECAA) which implies the adoption and maintenance of a large body of legislation in aviation.

Immediate reforms (<100 days):

- The new Government's budget needs to maintain Road Fund allocations for road maintenance in line with its commitments under the Transport and Logistics Strategy (TLS) and its agreements with the various development partners;
- Improve the procurement and contract administration capacity of the SRA to implement the investment plan in the LTIS and TLS; and
- Ensure better coordination and clarification of the respective responsibilities between the Civil Aviation Authority, Ministry of Transport and Road Infrastructure MTRI and the Government on the implementation of the ECAA.

Short-term reforms (<12 months):

- Establish an independent Road Safety Government champion and provision of budget to implement the National Strategy for Road Safety;
- Develop a National Local Road Program that addresses financial sustainability, maintenance, prioritization, and technical standards; and
- Prioritize training of road construction professionals in Moldova in order to create local employment.

Medium-term reforms (>12 months):

- Develop a medium term action plan and strategy for the development of the transport sector, to fulfill Moldova's commitments under the recently signed AA;
- Adopt appropriate legislation and regulations to modernize the railways sector in accordance with the commitments under the EBRD financing agreements, and as part of the requirements for EU accession set forth in the AA; and
- Establish a Naval Agency by restructuring the Giurgiulesti Harbor Master Service and introduce effective procedures for supervision of the merchant fleet registered under the flag of Moldova to ensure compliance with international conventions.

## ENVIRONMENT AND DISASTER RISK REDUCTION

### *Key Issues and Challenges*

**Moldova's sustainable development is adversely affected by high levels of water pollution, natural resource degradation and hazards.** The state of the environment, natural disasters and climate change directly affect living conditions and health, as well as economic development. Maintaining a clean environment and increasing environmental safety ultimately ensures that the fundamental human rights provisions of the Constitution of the Republic of Moldova are met: the right to life and the right to physical and mental health.

### *Environmental Protection – current situation*

**A weak legal framework and poor enforcement, outdated norms and standards, and inefficient environmental management and governance models** are the key challenges for environmental protection:

- A bottleneck remains the chronic underfinancing of the sector and the underestimation of investment needs. The sector - not being perceived as priority - has low capacity for strategic planning and formulating financially sound programs. The estimated 0.3 percent of GDP as yearly environmental expenditure falls significantly short of the investment needs arising out of the AA with the EU. The experience of candidate countries and new member states shows that the sector needs financing of several percent of GDP over decades;
- Inefficient environmental monitoring and environmental assessment systems that make the implementation of the key environmental protection principle “polluter pays” difficult;
- Low share of forests and protected areas and inefficient biodiversity conservation. Forest cover amounts to 10.7 percent of the land area, amongst the lowest in Europe. The management practices of forests and protected areas is still not meeting international requirements; and
- In accordance with the National Environmental Strategy and the requirements of the AA (Chapters 16 & 17) Moldova urgently needs to update the legal framework of the environmental sector (including outdated norms and standards) and to harmonize it with the EU environmental *acquis communautaire*. In order to be able to effectively implement and enforce the harmonized environmental legislation, subsequent institutional reform of the sector is required.

### *Climate Change and Natural Disaster Risk Reduction (DRR) – current situation:*

- The disaster risk profile of Moldova is dominated by climate-related hazards with economic impact imposed by floods, drought, landslides and extreme weather events (like heat waves, torrential rains, flash floods, etc.). Moldova suffers on average four to five severe droughts every ten years, with increasing in intensity and frequency over time;
- The areas most prone to the risk of flooding are those around small internal rivers, as well as around the trans-boundary rivers Nistru and Prut;
- Being situated in the seismic zone of the Carpathian Mountains, Moldova regularly experiences earthquakes with epicenters most often located in neighboring Romania;

- The adverse impact of climate change is intensified by the low quota of forests (10.7 percent), protected areas (4.7 percent) and wetlands (2.8 percent) and aggravated by unsustainable land management and agricultural practices; and
- Moldova still uses a narrow civil protection approach which is too focused on immediate disaster response rather than prevention, risk reduction and resilience. Modernized policies and institutional frameworks are required, combined with increased awareness, better warning systems, cross-sector and cross-border collaboration, and local level action.

*Short-term reforms (< 100 days):*

- Finalize the legal gap analysis and speed up the transposition of legal framework of the EU in line with the AA;
- Improvement of the Ministries' and Government's Action Plans for the implementation of Chapters 16 and 17 of the AA;
- Financial gap analysis and improvement of financial planning for the upcoming budgetary year and beyond;
- Reform the National Environmental Fund (NEF) by adopting the new regulation presented by the Ministry of Environment with a view to enhanced transparency and effectiveness; consider the strong arguments for keeping the NEF as off-budget public Fund with own legal status, own bank accounts and dedicated Boards of Directors and governance structures;
- Elaboration of a concept for institutional reorganization, including feasibility of a new Environmental Protection Agency (EPA) structure and key functions;
- Complete the sector's policy framework by adopting the National Biodiversity Strategy and Action Plan and the Low Emission Capacity Development Strategy;
- Initiate a comprehensive reform of the national disaster risk management system, by consulting and agreeing the reform concept;
- Human resources assessment, organization of staff attestation, revision of the core staff's terms of reference;
- Training needs assessment, elaboration of training curricula for key target groups; and
- Decide on and nominate a National Designated Authority (NDA) to the Green Climate Fund and request support. Position the country to access international climate finance, including through the formulation of Nationally Appropriate Mitigation Measures (NAMAs).

*Medium-term reforms (<12 months):*

- Improve environmental governance systems for delivering the AA, by creating the National EPA and by revising the main functions of the State Environment Inspectorate;
- Implement the government's updated Action Plan for Chapters 16 and 17 of the AA;
- Transpose first parts of the legal framework of the AA and harmonize it with EU directives as foreseen in the Action Plan;
- Targeted training and capacity development for the Ministry of Environment and relevant (reformed) institutions with a view to implementing and enforcing harmonized legislation

and modernized management practices, including strengthened capacities for project and program formulation and costing as basis for channeling required funding to the sector;

- Significantly increase funding for environment, including new economic, fiscal and financial instruments; create effective mechanisms for including business and society in solving environmental challenges, including a comprehensive reform of pollution charges;
- Adopt a whole-of-government approach and further improve the inter-sectorial cooperation and awareness of environment as a cross-cutting issue; mainstream environmental requirements into other sectors and fields (Green Economy, Resource Efficient Cleaner Production (RECP), Energy Efficiency, Green IT, etc.);
- Follow the steps highlighted in the National Environmental Strategy 2014-2028 and the National Strategy for Adaptation to Climate Change (NSACC) including the Action Plans of both documents, and allocate adequate financing for their implementation; and
- Finalize and adopt the National Disaster Risk Management Strategy and advance the sector reform in support of a prevention and preparedness focused disaster risk management system.

Long-term reforms (> 12 months):

- Implementation of the Action Plans foreseen in the National Environmental Strategy 2014 - 28 and National Strategy for Adaptation to Climate Change and other sector policies, allocating adequate funding for their realization (as above);
- Implementation of the Governments' regularly updated Action Plan for Chapters 16 and 17 of the AA (as above);
- Continue to implement pilot projects (for further replication in all sectors of economy) in promoting environmental education, use of environmentally friendly technologies, resource efficiency, clean production, organic agriculture and green economy;
- Design targeted multi-year public investment and spending programs and allow for adequate instruments (grants, loans, guarantees, fiscal instruments, etc.) to support the investment needs of the sector and support and incentivize private sector's compliance;
- Improvement of environmental statistics by (a) covering all enterprises which have environmental expenditures and are included in the system of statistical reporting; and (b) defining and developing statistical information that would support Sustainable Development and Green Economy; (c) defining clearly the notion of "environmental expenditures"; and
- Design, further adoption and implementation of a National Program for strengthening environmental monitoring.

## AGRICULTURE AND RURAL DEVELOPMENT

### *Key Issues and Challenges*

**Enhancing Moldova's agricultural competitiveness is a key element in improving the access of Moldovan agro-food products to the EU market and capitalizing on the potential benefits from the AA and DCFTA.** The challenge of strengthening competitiveness and reorienting a large chunk of Moldova's agro-food exports towards the EU appears today more pressing than ever in view of increasing uncertainties on its traditional CIS markets. At the same time, it is realistic to expect that many farmers will continue to produce for non-EU markets and that agriculture will retain its social role as a source of income for less prosperous households.

**In spite of its large size and significant contribution to the economy, the agricultural sector of Moldova has been performing rather unevenly as growth has been slow and highly variable.** Agriculture presently accounts for 10-12 percent of GDP, and employs about 26-28 percent of the labor force. However, the average sector growth rate has been rather low at 3.6 percent per annum over the last ten years, mainly due to the sector's vulnerability to the weather. Another limiting factor is the large share of small farmers which have trouble accessing high-value markets and little capacity to cope with market and weather risks. Putting the sector on a sustainable growth path is paramount for reducing poverty and achieving shared prosperity in rural areas. Presently the highest poverty rates are registered among the agriculture-related population: 21.7 percent of farmers and 31.3 percent of agricultural workers have been found poor in 2013, these two categories accounting for 31 percent of country's poor population.

**A competitiveness enhancement framework focused on addressing issues related to food safety governance, access to inputs and markets, institutions and human capital, resource depletion and adaptation to climate change would present a solid platform for ensuring Government action.** Important competitiveness gains may be achieved by Moldovan producers and exporters of agro-food products if the EU food safety requirements are met. Need for modernization of food business operators and use of modern technologies is a pre-requisite for improved market access. Access to inputs continues to be hindered by unnecessary overregulation of critical inputs such as seeds, seedlings, and fertilizers, resulting in limited ability of Moldovan farmers to supply competitive produce. Human capital development is stifled by a weak agricultural knowledge system, comprising research and education institutions that are largely outdated and failing to serve the evolving needs of the farming sector. Last but not least, the sector's environmental and climate vulnerability are major risks for competitiveness, and are a reflection of low rate of adoption of sustainable land-management and conservation technologies, underdeveloped weather-related risk mitigation instruments, as well as insufficient access to irrigation in large part due to deteriorated irrigation infrastructure.

### *Short-term reforms (< 100 days):*

A number of quick wins in supporting sustainable sector growth can be achieved by streamlining regulations in input and output markets aimed at cutting *red tape* and stimulating access to new technologies.

- Liberalize the import regime for inputs (seeds, seedlings, fertilizers, pesticides) which are already available on EU markets by abolishing the mandatory testing and registration requirements. Some of these presently take up to three years and are costly to the private

sector. The liberalization will have a positive impact on crop yields and enable Moldovan producers to better cope with multiple and intensifying climatic risks;

- Streamline export and import related permissive documentation for agro-food products with a view of eliminating duplications and diminishing the load of mandatory requirements. Abolish the costly mandatory conformity certification for imported agricultural inputs that are produced according to international/EU standards and seek to introduce the mutual recognition principle for these products;
- Introduce clear division of competencies and responsibilities among the national public authorities involved in the area of rural development and food safety. Eliminate the outdated practice of duplicating food safety controls of food business operators so that controls on safety of the food products are carried out solely by the national authority for food safety ANSA; and
- Amend the current legal setup in view of authorizing ANSA to develop and propose legislation. This would be in line with EU practices and a key condition for accelerating reforms in the food safety area.

Medium-term reforms (< 12 months):

A medium-term policy agenda could focus on targeting the agriculture support programs/subsidies towards investments promoting enhanced competitiveness and climate resilience of the sector, in line with best EU practices.

- *Improve agriculture productivity and climate resilience* – provide incentives for young farmers, continue support to the agriculture extension service to disseminate new modern, climate resilient agronomic techniques and technologies, continue rehabilitation of deteriorated irrigation and drainage systems, support adoption of risk-mitigating on-farm investments, introduce innovative risk insurance schemes;
- *Improve access to markets* – support compliance with SPS requirements in target markets, support establishment of producer groups to facilitate smallholder farmer access to markets, strengthen business advisory services to stimulate greater investments in value chain development, especially for high value agriculture;
- *Improve targeting for equity* – expand program coverage to include more prospective small-scale farmers, groups of farmers, as well as young farmers. Adjustments to the limits of subsidy amounts available per individual beneficiary and reductions in subsidy rates may help achieve higher inclusion; and
- Ensure implementation of the National Agriculture and Rural Development (ARD) Strategy 2014-2020 through strengthening of institutional capacities of implementing agencies and timely allocation of the necessary funding. Update the strategy document to strengthen the approaches for sector-specific strategies and for the long-term export market diversification of agro-food products.

Long-term reforms (> 12 months):

- Continue support to building a robust, reliable and effective domestic food safety system, seeking to cover the fundamental elements of: (i) bringing food safety requirements and norms in line with internationally accepted practices; (ii) optimizing the laboratory setup,

improving the reliability of lab testing and achieving laboratory accreditation; (iii) transitioning to risk-based inspections and controls; (iv) ensuring systematic animal registration and recording of animal movement; and (v) setting up information and data management systems; and

- Reform the agriculture research institutes and the agricultural educational establishments to ensure a close connection with the labor market and private sector needs for applied research, technology transfer, skill development, etc. In the framework of the ongoing efforts to retain young people in agribusiness, developing and implementing a comprehensive curriculum for the education of self-employed farmer entrepreneurs must be a key priority.

## WATER SUPPLY AND SANITATION (WSS)

### *Key Issues and Challenges*

#### *Water availability and quality*

- **Scarce water resources susceptible to climate change and extreme weather conditions.** With around 500m<sup>3</sup> of water per capita per year, mostly from the Nistru and Prut rivers, Moldova qualifies as “water stressed.” Climate change might reduce future water supplies by 16 percent to 20 percent; and
- **Inadequate quality of water.** Lack of rudimentary sanitation and excess use of fertilizers lead to polluted waters. 85 percent of samples from wells and 39 percent from centralized piped systems do not meet sanitary standards. As a result, over 50 percent of the population consumes poor quality water, which harms public health, particularly hepatitis A and gastrointestinal diseases.

#### *Physical infrastructure*

- **Dilapidated and technically obsolete physical infrastructure.** Water supply and sewerage systems, a significant part of which date from the 1970s, are collapsing, and emergency repairs cannot keep pace with the breakdown in pipes, buildings and mechanical installations. In rural areas 11 percent of the population has a technical connection to the sanitation networks, but in reality only 2 percent have functioning sanitation facilities. As result, most of people use pit latrines which seep into water supplies.

#### *Water governance and institutional capacity*

**Governance for water management is not adequate** to ensure the implementation of the AA. Political will is required to ensure water and sanitation become a priority on the governmental policy agenda and the funding and investment requirements of the sector are addressed. Issues include fragmented institutional structures, the weak operational capacity of existing water utility companies (ApaCanals), the absence of coordinated strategic investment programming and the method of setting water tariffs at municipal level.

- Fragmented institutional set-up. There is a wide range of institutions with WSS sector management functions, and the delineation of their tasks and duties is not clear. The lack of consensus at the political level leads to overlapping responsibilities, unclear regulation, and divided authorities over budgets and decision-making;
- Lack of coordinated strategic investment programming. Infrastructure projects are subject to a fragmented financing from various domestic and foreign channels, whereby each financier uses its own procedure for planning, preparing and implementing investment projects. There is no uniform pipeline of investment programs in line with the strategically prioritized needs of the sector;
- Political setting of water tariffs. Water tariffs are set at the municipal level, and the process is susceptible to political interference. As a result, many tariffs do not cover operating expenses, let alone capital investments, thus jeopardizing the financial sustainability of water operators;

- Outdated technical norms, standards and regulations. construction norms and design standards are obsolete and over-dimensioned. They contradict modern international norms and maintenance practices;
- Weak operational capacity of existing water utility companies (ApaCanals). Water service provision is excessively fragmented with over 40 water utilities. Most are financially unviable and cannot afford to invest. They lose money because of outdated equipment, unskilled staff and dilapidated piped networks; and
- Audit reports have repeatedly shown that the financial management capacity of water utilities is low, despite targeted training for their financial management staff. This situation has been also caused by resistance to changes faced within the entity on behalf of high and middle management whose support and accountability is important in addressing the audit issues.

### *Suggested Policy Priorities*

Proposals are excerpted from the following policy documents: Government Action Plan for the implementation of the EU-Moldova AA, the National WSS Strategy 2014/28, the Water Law (2011) and the Law on WSS public services (2013).

#### Immediate reforms (< 100 days):

- Clearly delineate functional responsibilities between the Ministry of Regional Development and Construction (MRDC) and Ministry of Environment regarding programming, planning, financing and implementation of water and sanitation programs;
- Assess the water sector institutions with a view to providing long term ongoing institutional capacity building support at both central (Ministry of Environment) and agency level;
- Finalize the remaining requirements to transpose legal and regulatory framework to EU standards as set out in the AA;
- Initiate revisions and amendments of relevant WSS construction and design technical norms and standards; and
- Ensure that the National Energy Regulation Authority (ANRE) becomes fully compliant with its legal obligations to act as independent WSS sector regulator.

#### Short-term reforms (< 12 months):

- Elaborate in a participatory and transparent way an action plan for the implementation of the Water Law (2011);
- Elaborate Institutional Development Plan for Water Sector Institutions according to the recommendation of the Functional Analysis (above);
- Streamline the flow of funds from domestic and foreign sources to secure an adequate sector financing;
- Harmonize the two concepts of decentralization and regionalization; finalize the policy document regarding the decentralization of WSS services; develop an action plan regarding the regionalization of WSS services;
- Initiate administration of water resources according to principles of Integrated Water Resource Management (IWRM) and river-basin organization;

- Finalize development and introduction into practice of a transparent WSS tariff policy and methodology basing on market economy and cost recovery principles;
- Develop legal initiatives that secure WSS affordability according to the Human Right to Water and Sanitation;
- Develop an independent and efficient mechanism for the monitoring of water quality;
- Initiate the development of a national water cadaster; and
- Upgrade WSS professional training programs and best practices networks.

Medium-term reforms (> 12 months):

- Implement Institutional Development Plan for Water Sector Institutions;
- Elaborate the Law on Quality of Potable Water;
- Continue the transposition of the legal and regulatory framework to EU standards;
- Continue reforming water utilities/companies;
- Introduce a monitoring mechanism for water utilities based on performance indicators and benchmarking;
- Establish water solidarity schemes according to the Human Right To Water and Sanitation principles and national targets under the Protocol on Water and Health;
- Roll-out professional training programs and promote best practices schemes;
- Advance the development of a comprehensive WSS database (information system) and its integration with the e-governance platform;
- Establish of the commission under the bilateral treaty with Ukraine on protection and sustainable development of the Nistru river basin, including earmarking of budget positions for work of commission;
- Prepare joint river management plans with Ukraine in accordance with the Water Framework Directive (as a first step, establish regular data exchange and a joint information platform); and
- Strengthen the accounting and financial reporting capacity of the water utilities.

## FORESTRY

### *Key Issues and Challenges*

**Low level of forest cover:** Moldova's forests cover just 12 percent of the land area, (c.f. EU average of 45 percent). This low cover contributes to soil erosion, floods, and landslides and results in large areas of degraded lands.

**Rural poverty:** 75 percent of the poorest 40 percent of the population live in rural areas. Much of the rural population depends on forests for firewood, pasture for grazing and fodder, and Non Timber Forest Products (NTFPs) for sustenance and income. The value of the direct forest ecosystems services (e.g. wood, NTFPs.) is estimated at around US\$28 million per year. The forest sector's contribution to GDP amounted to just 0.27 percent in 2010.

**Unregulated harvesting:** The officially recorded timber/firewood harvest is around 400,000 m<sup>3</sup>/per year. This equates to 32 percent of the annual increment (EU average 58 percent). The total consumption of fuelwood however, is estimated at 1.1 million m<sup>3</sup> per year<sup>28</sup> (nearly three times the official harvest). This represents 80 percent of the total increment. The difference between the officially recorded removals and the estimated consumption is most likely due to unregulated and uncontrolled harvesting. These levels of illegal removals are unsustainable, and will result in significant degradation. The gross value of this unofficial harvest is estimated at between US\$15 million and US\$17 million per year.

**Forest Management and institutions:** The State Agency Moldsilva is responsible for implementing state policy in forestry and hunting and has management as well as regulatory and administrative functions. Moldsilva manages 83 percent of the National Forest Fund – other state institutions manage a further 4 percent, with the balance (13 percent) being owned and managed by local public authorities (LPAs). Moldsilva is essentially self-financing from timber sales and in 2013 had revenues and expenditures of US\$20.5 and US\$21.5 million respectively.

All forests managed by Moldsilva have forest management plans (FMPs), while most LPA forests do not. Moldsilva has some capacity to manage their forests, whereas the LPAs lack trained staff and resources. Consequently more unregulated harvesting occurs in LPA forest. In the absence of FMPs and the capacity for active forest management and protection, LPA forest will continue to be over-exploited and degrade. In 2012, a national Strategy for Institutional Reform of the Forestry Sector in Moldova was prepared, which advocates: the separation of the management from the regulatory and control functions; the strengthening of the forest management capacity in the new institutions including Moldsilva, the new authority responsible for control and monitoring the sector and the LPAs; the development of a more market based economy within the sector (including the establishment of small and medium sized enterprises (SMEs)); as well as the need for the continued development of consensus among the main stakeholders. Although the strategy was broadly supported, *it did not receive final Government approval.*

**Climate change** will have a significant impact on Moldovan forests. Even small changes in temperature and precipitation could severely impact forest growth and survival. During 2010-2039, forest health will worsen in the north of the country where areas susceptible to die-back will expand by around 15-25 percent. By 2040-2069, conditions will deteriorate further,

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<sup>28</sup> Estimate made by the EU funded Forest Law Enforcement and Governance Program (FLEG).

extending southwards. Adaptation to climate change will require research on species selection, adaptive provenances and genotypes.

**Soil degradation** in the wider landscape has increased due to unsustainable agricultural practices, poor management of waters and the degradation of forest belts. 47 percent of agricultural land is classified as degraded. The National Plan on extending forest vegetation for 2014-2018 envisages the afforestation of 13,000 ha of degraded lands and water protection forest belts. Forests and protective belts can mitigate soil erosion and contribute to agricultural land productivity. Dealing with soil degradation requires the establishment of shelterbelts and improved livestock husbandry, soil management and agricultural practices.

**Helping to improve forest sector performance** and increasing the sustainability of landscapes will increase the wealth of the population by: creating and sustaining rural based jobs from increased forest establishment, maintenance, harvesting and processing activities; the provision of subsistence products; improving agricultural productivity; ameliorating land degradation; and improving the productivity from pasture. Improving the holistic management of landscapes can help reduce the incidence and scale of damage from catastrophic events such as landslides, flooding and forest fires.

Immediate reforms (<100 days):

- Recommence the stalled forest institutional reform process (the 2012 Strategy) with political support and commitment at the highest level;
- Prepare an afforestation/reforestation program to establish fast growing wood energy plantations, and agricultural shelterbelts; and
- Design an integrated research program in the forest sector to specifically include climate change mitigation and adaptation.

Short-term reforms (<12 months):

- Continue implementation of the institutional reform process, and commence building the capacity activities of the reorganized institutions;
- Develop the institutional capacity to improve management of LPA forests;
- Start implementation of the forest research program; and
- Commence raising public awareness of forest and land protection.

Medium-term reforms (>12 months):

- Encourage the formation of SMEs in the forest sector through reform of timber sales and contracting procedures for harvesting and forest establishment and maintenance operations;
- Establish a fast growing plantation and agricultural shelterbelt network and the capacity to ensure its maintenance and management; and
- Prepare a new Sustainable Forestry Strategy for the country to take into account new factors such as climate change, the EU forest strategy and FOREST EUROPE.