



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 4.12.2006
SEC(2006)1506

COMMISSION STAFF WORKING DOCUMENT

Accompanying the :

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

ON STRENGTHENING THE EUROPEAN NEIGHBOURHOOD POLICY

ENP Progress Report

Moldova

{COM(2006)726 final}

Background and overall assessment

The EU-Moldova ENP Action Plan was adopted on 22 February 2005 for a period of three years. Since then, implementation has been guided and monitored on the basis of annual implementation tools, which set out comprehensive sets of priorities and timelines for 2005 and 2006, based on the priorities contained in the ENP Action Plan agreed jointly by the EU and Moldova. Overall evaluations have been carried out in November 2005 and March 2006. In addition, intense institutional co-operation through the EU–Moldova Cooperation Council, the EU–Moldova cooperation committee and four sub-committees has enabled both sides to move forward and follow the implementation of the Action Plan closely.

This document reports on overall progress made on the implementation of the EU - Moldova ENP Action Plan. As such, it concentrates primarily on the development of EU- Moldova bilateral relations and on issues involved in implementing the Action Plan. Reports on progress made on the implementation of Action Plan priorities addressed in 2005 and 2006 respectively were prepared and shared with the Moldovan side in November 2005 and March 2006. The present report is not a general review of the political and economic situation in Moldova, which was last set out by the Commission in the Country Report for Moldova published in May 2004.

Faced with an extremely difficult internal and external situation, Moldova has begun implementation of the Action Plan. Overall, while progress was made since 2005, implementation of reform strategies remains a problem, even in areas where there has been good legislative progress. Moldova needs to concentrate resources in implementation and clearly prioritise action.

Good progress has been made with regard to Moldova-Ukraine border management and some progress has been made towards resolution of the Transnistria conflict. Likewise, good progress has been made in the area of cooperation with international financial institutions (IFIs) and with regard to poverty reduction. Moldova has reached an agreement with the International Monetary Fund (IMF) allowing for IMF and World Bank financing.

Some progress has been achieved in cooperation on foreign policy, with Moldova aligning with EU positions on issues of regional and international relevance, though failing to do so on certain issues of particular national sensitivity.

Moldova has also made progress on trade. Moldova now enjoys the benefits of the new EU generalised system of preferences plus (GSP+) and is working towards fulfilling the conditions on improvement of its system of verification and certification of origin, which would allow the granting of additional autonomous trade preferences (ATPs) by the EU. Progress can also be noted in the fight against organised crime, including in the area of trafficking, but implementation still lags behind. Moldova has made some progress in improving the investment climate, but overall much more needs to be done to improve the conditions for starting and operating businesses.

Even though Moldova conducted reasonably free and fair elections and has amended its electoral code, there are still a number of problems with regard to the functioning of democratic institutions. Freedom of the media is still far from ensured. Corruption

is widespread and Government interference in business is a critical impediment to economic development. There is a need to clearly separate business and politics. In the area of education and people-to-people contacts, Moldova has joined the Bologna Process. Good progress has also been made in reforming the research, development and innovation sector.

Parliamentary immunity also needs to be urgently clarified in legislation. Moldova needs to ensure better respect for human rights. Further reform of the judiciary, in particular to ensure its independence, is needed. Independent courts, clearly-defined and limited powers of the prosecutor-general and transparency and predictability of judgements are all key elements for a functioning democracy, as well as for attracting investment.

Political dialogue and reform

Political dialogue

Political dialogue has been intensified through *inter alia* bi-annual consultations between Moldova and the EU Political and Security Committee and the Council working group on Eastern Europe and Central Asia.

Democracy and the Rule of law

The 2005 parliamentary and local elections generally complied with most Council of Europe and OSCE standards, except as regards the pre-election campaign.

Throughout 2005 and 2006, the Moldovan Parliament adopted a significant number of laws in order to meet the reform requirements of the Action Plan. Direct broadcasting of the plenary session was introduced, as well as publication of the verbatim record of some sessions. In November 2005, Parliament introduced a concept of cooperation with civil society which aims at greater involvement by civil society in the early stages of law-making. Draft rules of procedure have been submitted to the Council of Europe for its advice. These include, *inter alia*, required changes with regard to parliamentary immunity, already incorporated in the Constitution. The overall assessment of the amendment of the electoral code, adopted in July 2006 is positive, but attention must be paid to proper implementation.

A draft law on public local administration and amendments to the law on public local finances have been prepared, with a view to strengthening democracy at the **local level**. These proposed legislative changes aim to address the operational and financial autonomy of local entities, the division of competences between local and central Government and abusive use of criminal proceedings against democratically-elected mayors.

In July 2006, Parliament adopted a package of laws, which in particular amended laws on the **judicial system** and on the Supreme council of the magistracy. This package included a law establishing the National institute of justice, which is to create a framework for training of judges, prosecutors and auxiliary personnel. Nevertheless, further reforms of the judiciary remain a priority. The extended competence of the general prosecutor's office remains a subject of concern, as does non-compliance with judgments of the European Court of Human Rights (ECHR).

In January 2005, Moldova introduced a national anti-corruption strategy and a corresponding action plan. Concrete measures have been undertaken to limit the spread of corruption among civil servants. The Centre for fight against economic crime and corruption (CFECC) is the main Government agency responsible for fighting corruption. Moldova needs to further examine the division of competences between the various agencies involved in the fight against corruption, in cooperation with the Council of Europe, and to strengthen the functioning of national bodies in the anticorruption framework. Particular attention needs to be paid to effective implementation of the national strategy and the related action plan, with a particular focus on high-profile corruption cases.

Human Rights and fundamental freedoms

In June 2006, the Moldovan Parliament voted to amend the Constitution to abolish the use of the **death penalty** even in exceptional cases.

In May 2005, the Moldovan Parliament amended the criminal code, making any use of physical **torture** by the police and prison staff a criminal offence. Moldova also ratified the Optional Protocol to the UN Convention against Torture. Ill-treatment in police custody nevertheless continues to be a major problem, aggravated by the high number of detentions resulting from the failure to use alternative methods such as provisional release as well as the system of quotas and rewards for police based on the number of crimes solved.

As regards **media**, a formal restructuring of Tele Radio Moldova (TRM) into a national public service broadcaster has taken place. The revised draft of the Audiovisual Code was adopted in July 2006. It will be important to see the new legislative framework effectively and properly implemented. Article 16 of the Civil Code was amended so as to provide that compensation payable in respect of defamation should be reasonable and to establish guidelines for awarding compensation, amendments which should substantially reduce the risks which journalists face from libel suits.

Moldova acceded to the optional protocol of the Convention on the elimination of all forms of **discrimination** against women (CEDAW) in early 2006. It has introduced a law on equal opportunities for women and men, and has ratified the ILO Convention concerning Maternity Protection.

There have been attempts to restrict the activities of independent **trade unions** and pressure by the authorities to force workers to leave independent trade unions.

Cooperation on foreign and security policy, conflict prevention and crisis management

Since June 2005, Moldova has been aligning itself with CFSP declarations by the EU. In the area of sanctions, Moldova did not align itself with the measures imposed by the EU on Belarus following the presidential elections in that country.

Co-operation for the settlement of the Transnistria conflict

Following the endorsement of the Action Plan, in March 2005 the EU appointed an EU Special Representative for Moldova in the person of Ambassador Jacobovitz de Szeged, and in September 2005, together with the USA, joined the mediation process (known as the 5+2) as an observer. The inclusion of the EU and the USA was supported by Moldova as one of the partners in the negotiation process. The EU also launched a successful EU Border Assistance Mission (EUBAM) in November 2005.

Moldova has maintained regular contacts with the EU Special Representative. Resumption of 5+2 talks in September 2005 followed a long pause caused by the so-called 2004 school crisis. Moldova constructively participated in the talks but following the introduction of the new Joint Customs Regime with Ukraine, Transnistria has refused to engage. So far, only meetings between the international mediators and observers, or separately between them and each of the two parties (in October 2006) have taken place.

Supported by the EU Border Assistance Mission to Moldova and Ukraine (EUBAM), Moldova has made important progress, with Ukraine, on pending border questions along the Transnistrian section of their shared border. Cooperation with Ukraine has been strengthened, including through steps towards an effective exchange of information about the flows of goods and people across their common border. In September 2006, the Commission conducted a successful seminar for the Moldovan business community located in Transnistria, to explain the advantages of legal trade with the EU and to highlight the need to respect international rules and work within the Moldovan legal framework.

EU Border Assistance Mission to Moldova and Ukraine (EUBAM)

Following a request from President Voronin and Ukrainian President Yushchenko, the EU established an EU Border Assistance Mission (EUBAM) on the border between Moldova and Ukraine, including on the Transnistrian segment. The purpose of this mission is to enhance the capacities of the Moldovan and Ukrainian services on the border and thereby provide a valuable contribution to the settlement of the Transnistria conflict. Moldova is working closely with this mission. During the second Advisory and Monitoring Board meeting of the EUBAM in May 2006, the EUBAM presented to Moldova and Ukraine a list of concrete recommendations on strengthening the Moldovan and Ukrainian customs and border guards services, on increasing cooperation among them and on improving customs control and border management in the two countries.

As of July 2006, in full agreement with Moldova and Ukraine, the EU has further reinforced the EUBAM, bringing the total number of EU experts to 101, reinforcing its capacity for risk analysis and opening two additional field offices in Odessa and Chisinau.

The Moldovan and Ukrainian Prime Ministers issued a Joint Declaration on customs issues in December 2005. On its side, Ukraine committed to allowing the transit of Moldovan goods through the Ukrainian border only if accompanied by official Moldovan customs stamps while Moldova, for its part, committed to facilitating registration and access to official Moldovan customs stamps for Transnistrian companies. Ukraine began implementing the agreement in March 2006. Moldova

introduced relevant changes to its legislation before March. The EUBAM has been active in monitoring the situation.

Economic and social reform and development

Macro-economic outlook and developments

Since 2000, the Moldovan economy has been growing steadily, despite a very difficult public finance situation and a gradual decline in foreign direct investment. In 2005, gross domestic product (GDP) growth was 7.1%, in line with performance in previous years. Despite recent positive short-run developments, Moldova's financial situation remains extremely fragile. The Moldovan Government has revised its 2006 growth forecast from 6.5% down to 4%, to take account of the impact of Russia's import restrictions on Moldovan wines (the wine industry has contracted approximately 40% since March 2006) and gas price increases.

Moldova is reversing its previous economic policy which had led the Bretton Woods Institutions to discontinue their lending. In particular, Moldova has adopted, in close coordination with the IFIs, the Economic growth and poverty reduction strategy paper (EGPRSP) and a Medium Term Expenditure Framework (MTEF). The MTEF has been further revised and improved for the period 2006-2008. The EGPRSP provides a solid overall framework to address poverty, improve targeting of social assistance and introduce economic reforms, including a more active approach to prevent unemployment. This implies improving the regulatory framework and providing administrative support to improve the efficiency of the labour market. The MTEF has improved the quality of the budget process.

Moldova is demonstrating a commitment to stabilisation and reform in the area of economic policies. In February 2006, Moldova concluded negotiations with the IMF on an economic programme that the Fund supports with a financing arrangement under the Poverty reduction and growth facility (PRGF).

The PRGF programme, approved in May 2006, is designed to maintain macroeconomic stability and in this way to support growth and poverty reduction in Moldova. It also supports the improvement of the country's financial sustainability. One of the key elements of the programme, in this context, is the normalisation of Moldova's relations with its official creditors, with whom Moldova was in arrears since 2002. Following the approval of the PRGF programme, the Paris Club agreed in May 2006 to reschedule Moldova's maturities falling due from then until December 2008, along with outstanding arrears.

These positive developments allowed the EU to begin preparation for a new macro-financial assistance grant, also with a view to assisting Moldova countering the effects of negative balance-of-payments shocks that have hit the Moldovan economy in 2005-2006, caused by the increase in gas prices and by the closure of the Russian market to traditional Moldovan export products (in particular wine, fruits and vegetables, meat and meat products).

Social outlook and developments

The authorities have continued to focus on implementing their **poverty reduction** strategy. In 2005, the Government significantly increased allocations for social expenditures, and introduced decisions aimed at rationalising allocations of social benefits. Four pilot projects are currently being implemented, studying the impact of these reforms. The introduction of sector policy strategies for education, health and social protection, linked to the medium term expenditures framework, allows a better channelling of public resources, through the budget, to poverty reduction actions. The Moldovan Government has also taken steps to increase allowances for child birth and childcare, to improve care of children in public institutions and to reform those institutions.

However, recent data show that the decline in poverty rates experienced since 2000 has stopped (and even increased in rural areas) and that enrolment rates in primary education have not continued to increase.

Structural reforms and progress towards a functioning and competitive market economy

Moldova has also taken steps to improve the business environment. In 2005, the Government of Moldova, together with the OECD, conducted a study on the investment climate. In August 2005, the Government published the nomenclature of authorisations, permissions and certificates necessary for the conduct of entrepreneurial activity in Moldova. Further efforts should, however, be made by Moldova in order to enhance the business environment and to make the country more attractive for domestic and international investment.

Moldova's 2000 national strategy for sustainable development – “Moldova 21” represents the first long-term programme for **sustainable** social-economic **development**. The strategy is based on the following principles: development of a market economy with a social focus, creation of an open civil society, development with a focus on improving the quality of life and promotion of a new security concept linking economic, social, food and environmental concerns. There is, however, little to report on the implementation of this strategy.

Trade related issues, market and regulatory reform

Trade policies

Moldova has been a member of WTO since 2001 and has taken further steps towards trade liberalization. Nevertheless, administrative barriers to trade remain high.

The EU is Moldova's foremost trading partner, accounting for some 31% of its total trade. Bilateral trade in goods grew steadily and rather quickly in 2001-2004. Following a sharp decline in total turnover in 2005, bilateral trade seems to be recovering in the first six months of 2006. It remains however very low, and Moldova's exports to the EU need to be increased and diversified. The new GSP+ scheme, in force since January 2006, under which Moldova qualifies for enhanced preferences for good governance and sustainable development, should support this process through offering very advantageous access to the EU market.

Work is progressing on the possible granting to Moldova, by the EU, of additional **autonomous trade preferences (ATPs)**, above and beyond the GSP+, provided Moldova significantly improves its certification and verification of preferential origin. In April 2006, the Parliament adopted amendments to the customs code and law on customs tariff as regards competencies in certification of origin and issuing export certificates.

Since July 2006, the necessary administrative structure has been established - the **customs** department is now responsible for the issuing of preferential certificates of origin for exports to the EU. Further efforts are, however, needed in terms of effective implementation of the new legislation and procedures on verification and control of rules of origin. Customs legislation, including the customs code, was modified in 2005 with, *inter alia*, the introduction of the concept of post-clearance controls based on risk analysis, the setting up of mobile teams, the regulation of customs brokers and the revision of customs infringements. Some customs clearance fees were also abolished in 2005. New legislation on the structure of the customs service was adopted, setting up a risk analysis division. Moldova applies the 2002 Harmonised System and is working on the adoption of the Combined Nomenclature. A code of ethics for the customs department, based on international standards, was adopted in 2005. The ASYCUDA World system now in use includes a risk analysis module and the customs service has begun work on the implementation of a risk-based enforcement system. New legislation on drug precursors was also adopted, to align to the EU standards. The EUBAM at the border to Moldova/Transnistria is providing useful training and support to Moldova's customs officials, which has led to considerable improvements of customs procedures at this sensitive border.

On **free movement of goods and technical regulations**, Moldova has started to review its legislation with a view to aligning it with the EU and international standards. In April 2006, the Government approved a decision on conformity assessment procedures. The service of standardisation and metrology of Moldova also adopted several general regulations in order to harmonise administrative practices to EU and other international standards. Moldova has started to adopt European harmonised standards.

Moldova took further steps, through the adoption of **sanitary and phyto-sanitary** legislation, towards convergence with EU legislation and compliance with WTO rules. Moldova has acceded to the European and Mediterranean Plant Protection Organisation. Following the Commission's (Food and Veterinary Office) inspection visit to Moldova in May 2005 and its subsequent report, Moldova has submitted and started implementing a detailed action plan for 2006 aimed at addressing the deficiencies identified in the field of animal health and food safety. Moldova also took measures to enhance preparedness for avian influenza.

Moldova has made some progress in improving the **investment** climate. The implementation of a "guillotine law" has so far led to the elimination of almost 150 government regulations affecting business and many others are being amended. The number of business permits and licenses was reduced from 400 to 128 and one-stop-shops were created and developed for the registration of new enterprises (limited, however, to the main administrative requirements). Moldova also reformed its national accounting standards and regulations on auditing. A code of corporate governance has been prepared and will be submitted for public discussion and review. However, the investment climate remains difficult due to the absence of meaningful restructuring of state-owned companies, interference of politics in business, and over-regulation and lack of transparency in some sectors, in particular in insurance, media and electricity.

Amendments to the law on insolvency have been adopted, to enter into force at the end of 2006. These amendments will dissolve the creditors council. New rules regarding insolvency managers were introduced in order to ensure high quality management of the insolvency procedure.

Moldova is in the process of reviewing its legislation on **financial services**, taking into account the recommendations of the IMF's financial sector assessment programme (FSAP).

Movement of persons including movement of workers

In February 2006, Moldova ratified the European Convention on the Legal Status of Migrant Workers.

Other key areas

A study on the reform of the **tax** system, aimed at broadening the tax base, in particular through a gradual elimination for tax exemptions, has been carried out. The strategy of the state tax service development for 2006-2010 was approved by the ministry of finance. Conventions were concluded and have entered into force with two EU Member States, regarding avoidance of double taxation and preventing tax fraud on income and property tax. No progress can be registered on the implementation of the principles of the code of conduct for business taxation.

As regards **competition**, no real progress was yet made to increase transparency in the field of state aid. Moreover, Moldova still needs to establish a competition agency with adequate legal powers and adequate human and financial resources.

In the area of **Intellectual Property Rights**, Moldova has taken a number of positive steps, such as launching a study on piracy and counterfeiting, preparing a draft law on protection of plants and increasing seizures of counterfeited and pirated goods. The penal code has been modified to increase sanctions for violation and infringement of copyright and related rights. The cooperation agreements between the intellectual property agency, the customs service and the ministry of information development have been renewed, and negotiations have started to include the ministry of interior. Moldova still needs to intensify its efforts on effective implementation and enforcement of the IPR legislation.

Work on new **public procurement** legislation is ongoing, with the aim of bringing legislation closer in line with EU standards. There is a need to increase contracting authorities' awareness of, and compliance with, relevant legislation. It continues to be difficult to obtain information on public procurement.

Moldova carried out a population census in 2004, the results of which were published by the National Bureau of **Statistics** in 2005. A household budget survey was carried out in April 2005. Moldova has also begun implementation of the law of official statistics, designed to meet the principles and requirements of official statistics, in accordance with EU legislation. A short-term (2005-2006) strategy for the development of statistics has been approved and is being implemented. Transparency and quality of data has been increased through subscription, in May 2006, to the IMF's special data dissemination standard (SDDS). The statistical office has increased its administrative and human capacities, notably through support from international donors, which has helped expand its activities in new fields including statistical registers, labour force, enterprise and agriculture.

Good progress has been made in the reform of the single treasury account, by the progressive integration of the social insurance fund and the medical insurance fund, closure of some other accounts at commercial banks and creation and implementation of an integrated informational system for public finance management. The Government has also initiated procedures to improve its internal control systems and has embraced the PIFC concept under the World Bank's public financial management project. The Ministry of finance has started to draft a new comprehensive public internal financial control policy paper and to set up adequate institutional arrangements for the co-ordination and harmonisation of public internal control and internal audit.

In December 2005, Moldova adopted laws establishing a legal framework for **auditing** and legalizing the principles of independence and transparency of the Court of Auditors. In 2005, the Court of Auditors also issued methodological norms for organisation and carrying out of controls. The Court of Audit now has a mandate to conduct performance audits and receives technical institution-building assistance in order to better implement the LIMA recommendations (INTOSAI).

On **enterprise policy**, Moldova has committed itself to the European Charter for Small Enterprises process and in 2005 published a second national report on its implementation. A Euro Info Correspondence Centre (EICC) was opened in Chisinau in 2006.

Cooperation on Justice, Freedom and Security

Migration issues (legal and illegal migration, readmission, visa, and asylum)

A National Programme of Actions on **Migration and Asylum** was adopted in March 2006. Moldova is a participant in the migration-asylum related activities of MARRI, the Budapest process and the Söderköping process. Amendments to the law on refugees were adopted in 2005 introducing e.g. complementary protection. In the same year, Moldova began issuing IDs for identified refugees and a reception centre for asylum-seekers was opened. In 2005, Moldova amended the Criminal Code to take illegal migration into account.

Moldova has asked the EU to launch negotiations on **visa facilitation** before the end of 2006. A visa dialogue was opened in June 2006, when Moldova also decided to waive visa requirements for EU citizens as of January 2007. The Commission is preparing proposals for negotiating directives on visa facilitation and readmission, with a view to their adoption by the Council before the end of 2006.

Fight against organised crime (including trafficking in human beings)

During 2005, Moldova adopted comprehensive anti-trafficking legislation and improved its national action plan against trafficking. In March 2006, Moldova ratified the Council of Europe Convention on Trafficking in Human Beings. The Government has created a national virtual centre SECI/GUAM to prevent and combat terrorism, organised crime and illegal trafficking in drugs and has also established an inter-agency centre to combat trafficking in human beings. Through changes to the criminal code, penalties for trafficking were increased and the organisation of illegal migration was made a criminally punishable offence. Judicial, psychological and social assistance to victims, with a view to their reintegration, is provided through the Ministry of internal affairs, in cooperation with NGOs, in the framework of an IOM Programme. Despite these efforts, more progress is needed to punish acts of trafficking, to protect and reintegrate victims, to implement the witness protection law and to assist NGOs and international organisations in their work. Moldova is a party to the UN Palermo Convention against Transnational Organised Crime and to its Protocols on Smuggling and Trafficking of Persons. Effective implementation of these international instruments is of great importance.

Drugs

Reports from the Dublin Group point to a growth in drug-related problems in Moldova. In 2005, the Government approved a strategy for combating drugs and amended national legislation which increased the penalties for drug-smuggling and extended the number of categories of felonies. However, implementation is hampered by a lack of human resources, financial means and experience, as well as technical equipment.

Money laundering, financial and economic crime

In March 2006, the Parliament adopted amendments to the anti-money laundering law, in order to implement the relevant Council of Europe Convention, but legislation needs to be further aligned with international standards. Moldova is introducing

further legislative reforms in accordance with a forthcoming evaluation report from the MONEYVAL Committee in order to strengthen its efforts to investigate, prosecute and penalise criminal activities in this area. Implementation is, however, weak due to a lack of resources and expertise in financial investigations.

Police and judicial cooperation

Laws have been adopted on the ratification of the European Convention on International Acceptance of Criminal Judgments and on Juridical Assistance in criminal matters. Progress has been made in negotiating a framework for cooperation between Moldova and EUROPOL. Moldova has appointed contact persons in order to cooperate with EUROJUST. Moldova participates in several regional initiatives aimed at strengthening police cooperation in South-East Europe, including the Stability Pact and the regional centre for combating trans-border crime (SECI). Moldova has also signed the South-Eastern Europe Police Cooperation Convention. The Council of Europe has provided assistance for the development of codes of ethics for the police and for prosecutors.

Transport, energy, telecommunications, environment, and research, development and innovation

Moldova has pursued a **transport** policy of sustainable sector development. Important progress has been achieved in the area of road safety, where the emphasis has been put on upgrading infrastructure, stricter enforcement of driving times and rest rules and increased testing of vehicle roadworthiness. In the area of passenger transport, Moldova has adhered to the Interbus Agreement. In the rail sector, attention has focused on improving the efficiency of freight operations. The restructuring of the incumbent railway operator progresses slowly. Moldova is currently revising its legislation in the area of aviation security. It is enhancing its administrative and technical capacity, with a view to becoming a full member of the Joint aviation authority. Moldova has recently negotiated a horizontal aviation agreement with the European Community, amending bilateral air services agreements between Moldova and EU Member States. In the maritime sector, there are plans to establish a maritime authority and adherence to relevant international conventions has been stepped up.

EU-Moldova **energy** dialogue has developed considerably, including through high-level expert meetings and visits. Moldova took some steps towards gradual alignment with the internal energy market *acquis*, but initial plans to fully open up the market in 2005 were postponed. Moldova obtained observer status in the Energy Community Treaty, and its aim is full membership. The electricity transmission system operator was unbundled, a methodology for electricity tariffs was adopted and tariffs were regularly revised. Bill collection rates have improved, but are still low for heat. Debts remain a burden in the energy sector. After a dispute with Gazprom on prices, agreement was reached to further move towards market-oriented prices. Russian RAO UES bought the very large Cuciurgan power plant in Transnistria, which is key to Moldova's energy supplies. Moldova wishes to strengthen international energy connections with its neighbours including Romania and Ukraine. The Moldovan electricity distributor applied (jointly with that of Ukraine) for parallel operation with the interconnected electricity networks of continental Europe (UCTE). Moldova continued its active participation in the "Baku" Caspian/Black Sea regional energy

cooperation process. Energy network losses were further reduced, including through the installation of meters and the adoption of rules on technical losses and on avoiding theft. Moldova continues, in the context of its gas development plan, to aim at coverage of the entire country with gas supplies by 2010. Moldova further implemented its strategies on energy efficiency and renewable energies including through some pilot projects and initiated the development of a state programme for renewable energy sources 2006-2010.

Key **environment** issues include air quality, water quality, waste management and nature protection. Moldova has made good progress on climate change, as national structures have been set up, procedures for the clean development mechanism (CDM) adopted and five CDM projects prepared. Moldova has prepared an inventory of its environment legislation as well as its plans and programmes, and is also preparing an action plan on convergence with certain requirements of EU environment *acquis*. The 1993 framework law is under revision. Overall, framework legislation and sectoral legislation is in place in many areas, but require further development. Recent legislation includes laws on fertilizers and products for phyto-sanitary use, protection of endangered species, animal experiments, ecological agricultural food production as well as on a fishery fund and preservation of biological water resources. Some new laws on nature protection are under preparation. The latest strategic documents are a national strategy and implementation plan on persistent organic pollutants (end of 2004).

Moldova publishes annual state-of-the-environment reports and carries out some activities to inform and involve the public, even if the requirements of the Aarhus Convention have not yet been fully incorporated into legislation. Moldova prepared recently an inventory of its institutional structures. The Ministry of ecology and natural resources has faced staff losses. A major challenge is therefore to strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. The integration of environment into other sectors also requires attention. Moldova has ratified relevant international and regional conventions and protocols, with a couple of exceptions. Moldova participates actively in the Danube – Black Sea Task Force and the International Commission for the Protection of the Danube River of which it holds the presidency in 2006. Moldova also benefits from activities undertaken under the EU Water Initiative. The Moldova regional environment centre promotes co-operation between various stakeholders, including with neighbouring countries. The European Commission and Moldova have agreed to take steps to prepare for closer co-operation on horizontal and framework legislation.

As regards the **Information Society**, Moldova has adopted a national strategy entitled “Building Information Society e-Moldova” and decided on the development of the related legal framework. There is a need to provide additional human and financial resources and increase the enforcement powers of the National agency for regulation in telecommunications and informatics (ANRTI). The dominant incumbent operator of the fixed telephony network has recently been granted the first licence for third generation mobile communications (3G). There are two GSM mobile telephony operators. Regarding **audiovisual** policy, there is a need to complete the regulatory framework governing the media and to ensure the independence of the Audiovisual Coordinating Council.

In the area of research and innovation, Moldova has adopted a Code on science and innovations, giving the academy of sciences responsibility for policy-setting and implementation. An agency in charge of innovation and technology transfer has been set up. The Academy of science has entered into a partnership agreement with the Government until 2008, setting science as a strategic national priority for the sustainable development of Moldova. The Government of Moldova recently approved the national strategies for the development of industry and agriculture for the period of 2006-2015, the main accent being put on innovation, technology transfer, small and medium size firms, attraction of investments, etc. The promotion of new loans for innovation parks and incubators as well as for industrial parks was initiated recently. The Government will increase research funding to a level of 1% of GDP by 2008.

People-to-people contacts

Moldova has launched a programme for the modernisation of its educational system. While achieving good coverage at primary level, it continues to show divergences – rural/urban, rich/poor – at secondary and higher level. The **education** system continues to face daunting challenges and suffers from a lack of resources and stalled reforms. Moldova joined the Bologna Process in 2005 and is using European principles in the reform of this sector, for example with regard to curricula, accreditation procedures and quality assessment of courses and institutions. A Bologna promoters' group will be created. For these reforms Moldova makes good use of the Tempus programme. Moldova also participates in Stability Pact cooperation in this field. Since the academic year 2005/06 Moldovan students have been benefiting from Erasmus and Mundus. Moreover, Moldovan young people and youth organisations took part in activities under the **Youth programme**.

The UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions was ratified in October 2006.

Moldova continued **public health** sector reforms on the basis of the national health policy and the economic growth and poverty reduction strategy. Key areas for further attention include improvement of primary health, access (especially for the poor), quality, prevention and efficiency including the use of available financial means. The fight against communicable diseases such as HIV/AIDS and TB continued. In 2005 a sample survey of health conditions was carried out with the support of the World Bank, with a view to strengthening the analysis of public health conditions and access to medical services.

Assistance

Over the last two years EC assistance to Moldova has been increasingly geared towards supporting the key policy objectives outlined in the EU-Moldova Action Plan. Support provided under joint programmes with the Council of Europe, to improve Moldova's judicial system and to strengthen its capacity to ensure human rights standards, the successful launch and implementation of the EU Border Assistance Mission (EUBAM) and a dedicated project to strengthen Moldova's capacity to implement the ENP Action Plan are just a few illustrative examples. The introduction of new cooperation instruments such as Twinning and TAIEX strengthens the EC's ability to provide expert advice and to support technical

cooperation in regulatory areas. A twinning launching workshop has taken place at the end of October and the first twinning projects, including one to support the Parliament of Moldova, are under preparation.

EC financial assistance to Moldova has increased over recent years and a further package of increased assistance will be available from 2007 onwards. Furthermore, the Commission has recently proposed a new Council Decision to provide a straight grant to address the looming financing gap. With the entry into force of the new European Neighbourhood and Partnership Instrument (ENPI) the strategic, policy-driven character of EC assistance programme to Moldova will be strengthened. Future increased EC assistance programmes to Moldova will therefore focus on strengthening good governance and democratic development, regulatory reforms and poverty reduction.