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JOINT STAFF WORKING DOCUMENT

Association Implementation Report on the Republic of Moldova

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Joint Staff Working Document

1. Summary

The reviewed *European Neighbourhood Policy* (ENP) gives the EU and its neighbours a clear political framework for cooperation in the coming years with an overall objective of stabilisation.

The Council conclusions of December 2015 reconfirmed the principles of the reviewed ENP: enhanced differentiation between partners; a greater focus on objectives agreed with partners; increased flexibility to improve the EU's capacity to respond to crisis situations; and greater ownership by Member States and partner countries. A new reporting system was also agreed, in order to develop a new style of assessment that focuses specifically on meeting the goals agreed with partners. In line with the EU's new approach to the ENP, this report sets out the state of play of the implementation of the Association Agenda in the Republic of Moldova (hereinafter Moldova) since the parliamentary elections of November 2014, and ahead of the EU-Moldova Association Council on 31 March 2017.

The *Global Strategy for the EU's Foreign and Security Policy*, presented in June 2016, acknowledged that state and societal resilience are strategic priorities in the neighbourhood.

The *EU-Moldova Association Agreement* including a *Deep and Comprehensive Free Trade Area* (AA/DCFTA) fully entered into force on 1 July 2016 after being applied provisionally since September 2014. The Agreement significantly strengthens political association and economic integration between Moldova and the EU. It also illustrates a deep mutual commitment based on shared values and interests in the areas of democracy and the rule of law, human rights and fundamental freedoms, good governance, a market economy and sustainable development. In addition, the Agreement commits Moldova to an ambitious reform agenda in key areas such as the fight against corruption, justice, economic recovery and growth, trade, transport and energy, environment and social development.

The Council conclusions of 15 February 2016 highlighted the main challenges and key reform areas to be tackled in Moldova. These include excessive politicisation of state institutions, systemic corruption, lack of judiciary independence, the financial sector governance and insufficient investigation into the banking fraud.

With extensive support from the EU, Moldova has already adopted a number of reforms. These aim to restore the independence of the judiciary and tackle corruption, make the public administration more efficient, restore macro-economic stability, and approximating the legislation on electricity and natural gas.

However, further reform efforts are needed to improve the rule of law and the business environment, which is still affected by endemic corruption, as well as inconsistent policy-making. Strong implementation measures are needed in order to deliver tangible results for the population.

Moldova is a partner for the EU in the security sector. This includes cooperation in the fight against terrorism, trafficking and in Common Security and Defence Policy operations. The EU continues to fully support Moldova's sovereignty and territorial integrity and, on this basis, a peaceful settlement of the Transnistrian conflict with a special status for Transnistria.

Since the EU-Moldova Association Agreement was signed, the EU has consolidated its position as Moldova's main trading partner, with 63% of Moldovan exports going to the EU and around 50% of imports coming from the EU.

This report focuses on key developments and reform efforts and outlines the short and medium-term strategic priorities agreed between the EU and Moldova. Such reports will be produced each year in preparation for the EU-Moldova Association Councils.

2. Political dialogue, good governance and strengthening institutions

2.1. Democracy, human rights and good governance

Moldova's consolidation of its **democracy and rule of law** requires further reform efforts. The existing legal framework in Moldova allows for the **free establishment and operation of political parties and civil society organisations**. Since the 2014 parliamentary elections, there have been significant changes in party allegiance in the parties of the governing coalition. Although the electoral code was amended in April 2015 (ahead of local elections), some of the OSCE/ODIHR and Council of Europe recommendations still need to be addressed. The presidential election, held in October/November 2016, which was the first direct presidential election since 1996, was conducted largely in line with international standards. However, there were shortcomings in campaign financing, the use of administrative resources and media coverage. Following the validation of the election results by the Constitutional Court, Mr Igor Dodon was sworn in as President on 23 December 2016.

Following multiple changes of government in 2015 and anti-government demonstrations up to the beginning of 2016, Moldova regained some political stability in 2016. This provides room for reform work, although the governing parties and the political class as a whole need to pay close attention to ensuring that they are accountable to the people.

The legal framework guarantees **media freedom**. The media landscape is polarised, with a concentration of media ownership and monopolisation of the advertising market to the fore. A new Audiovisual Code still needs to be adopted. Moldova has fallen in the Reporters without Borders' Press Freedom Index over the past 2 years from 56th in 2014 to 76th in 2016.

Based on the recommendations of the European Commission and development partners, the government adopted the **Public Administration Reform (PAR) Strategy** in July 2016, together with the PAR action plan in December 2016. EU assistance launched in 2015 helps modernise the civil service, strengthen policy development and coordination system and improve public services offered to citizens and businesses.

Some progress has been made on implementing the 2013-2020 Strategy for Development of **Public Finance Management**, namely the gradual implementation of the Law on Public Finance and Fiscal Responsibility, progressive implementation of a new unified chart of accounts, a more robust financial management information system and a debt management information system. In 2016, a new Public Procurement Law also entered into force. However, efforts are still needed to further strengthen public finance management.

The government adopted the 2016-2020 Strategy for **statistics** and approved a draft law on official statistics, which is currently pending parliamentary adoption and will give the National Bureau of Statistics a coordinating role.

Respect for **human rights and fundamental freedoms** requires greater attention, in part due to weaknesses in **the justice system**. Perceived political interference in the judiciary and law enforcement is a systemic impediment to social and economic development. There have also been instances of judges being prosecuted for their decisions. The same goes for lawyers

engaged in high-profile cases. The EU and other international partners have questioned the wide-spread use of **pre-trial detention**, especially in cases linked to participation in demonstrations. In March 2016, the Constitutional Court reduced the maximum period for pre-trial and pending trial detention to 1 year. **Detention conditions** remain poor. Moldova was found to be in violation of the European Convention of Human Rights in 2015-2016 in 39 out of 42 judgments. The National Preventive Mechanism Against Torture resumed its activities in December 2016. The law on the rehabilitation of victims of torture was adopted in September 2016 and is expected to enter into force in March 2017.

In early 2016, an EU-funded **peer review mission** evaluated how well Moldova's rule of law institutions are working. It made several recommendations to address concerns on the independence of the judiciary and on corruption.

The second UN **Universal Periodic Review** issued 200 recommendations. Moldova announced that it would follow up on 197 of them, but not on three, including the call to ratify the European Charter for Regional or Minority Languages, which it signed in 2002.

The 2011-2014 National **Human Rights Action Plan** has not been fully implemented and a new one has not yet been adopted. Moldova has not yet ratified **Protocol 12 of the European Convention on Human Rights**. On 14 December 2016, the government adopted the Strategy for the Consolidation of Interethnic Relations in the Republic of Moldova for 2017-2027.

Moldova has ratified most international human rights treaties, including the Convention on the Elimination of All Forms of Discrimination against Women and the European Convention on Gender Equality. These are reflected in the national legal framework. In line with the **Anti-Discrimination Law** of 2012, an Equality Council was created in 2014, although its powers are limited. The institutional framework set up to improve implementation of the law is still hampered by scarce human and financial resources. Concerning the fight against **bias-motivated violence** in particular, some progress has been made in formulating amendments to the Criminal Code and the Code of Administrative Offences with regard to sexual orientation and sexual identity. However, the amendments have not yet been adopted.

Parliament adopted a legislative package on **gender equality** in April 2016 whose aim is to prohibit the use of sexist language and advertising. A quota was set to make sure that women account for at least 40% of candidates in central and local elections, government ministers and those holding leadership positions in political parties. **Domestic violence** against women and children remains wide-spread. Moldova signed the Council of Europe Convention on preventing and combating violence against women and domestic violence in February 2017.

Moldova has adopted the **Child Rights' Strategy** and also appointed an ombudsman for children in 2016. However, child deprivations and inequalities persist. Further steps to ensure education for all children and the deinstitutionalisation of children are necessary to put an end to human rights abuses endured by children with disabilities in institutions. On the rights of **people with disabilities**, guardianship reform has not been addressed.

Civil society organisations rely on external funding. In July 2016, a law was adopted to allow natural persons to direct 2% of their income tax to non-commercial public associations and religious organisations. The National Participation Council, which enables civil society to participate in decision-making at national level, has been inactive since 2015.

2.2. Foreign and security policy

Moldova is actively engaged in activities organised as part of the Eastern Partnership Panel on Common Security and Defence Policy (CSDP). It conducts annual **security consultations**

with the EU and is looking to increase its contribution to EU CSDP missions and operations. In 2016, the EU initiated a research study with this aim. One Moldovan expert is currently deployed to the EU Training Mission in Mali. In 2015, Moldova aligned with 33 out of 47 EU declarations and Council decisions that it was invited to support (75%), and with 29 out of 41 (71%) in 2016. Moldova and the EU have finalised the text on a security of information agreement, the first of three work strands in these negotiations.

Moldova is an active supporter of international efforts to combat **terrorism**. A law on the application of international restrictive measures was adopted in 2016, which established a national approach to the implementation of UN Security Council Resolutions.

Moldova has recognised the jurisdiction of the **International Criminal Court**.

Successive Moldovan governments have publicly expressed their commitment to **Transnistrian settlement negotiations** in the "5+2"¹ format. Under the German OSCE Chairmanship in Office, the negotiation process was resumed in June 2016. By signing the 'Berlin Protocol', the sides undertook commitments to achieve progress on a number of practical questions. However, it has proved difficult to implement them.

In November 2015, and as part of the implementation of Integrated Border Management, Moldova and Ukraine agreed on a **joint customs and border control** arrangement for the international border crossing point Kuchurhan on the central segment of their border, sparking concern among the *de facto* Transnistrian authorities. The EU supports a **phased approach**, which enables gradual implementation of the agreement. The EU Border Assistance Mission to Moldova and Ukraine (EUBAM) promotes border control, customs and trade norms and practices that meet EU standards and serve the needs of its two partner countries.

In May 2016, a **parliamentary platform** was created for consultation on and oversight over the reintegration policy. It is meant to foster political support for Chişinău's Political Representative in the settlement process. The government has announced plans to present Chişinău's official 'vision' for a Transnistrian settlement in 2017.

2.3 Freedom, security and justice

Moldova is preparing a new **justice reform strategy** while extending the implementation period for the 2011-2016 **strategy** so that some important reforms can be carried out. For example, a **reform of the judicial map** was adopted in 2016, which reduces the number of courts. This should lead to better case management, efficiency and savings thanks to specialisation of judges. A new version of the **Integrated Case Management System** is currently being developed to eliminate manipulation of cases.

A new **law on the Prosecution Service** entered into force in August 2016, in line with Venice Commission recommendations. It is meant to strengthen the independence of the prosecution service. The reform aims to limit the powers of the prosecution service, reduce the number of prosecutors and increase their salaries. On 8 December 2016, the President appointed Acting Prosecutor General Eduard Harunjen as the new Prosecutor General, for a single seven-year term in accordance with the amended constitution.

Further efforts are needed to enhance transparency and impartiality in the selection of judges and prosecutors, safeguard the external and internal independence of judges when deciding on cases and improve the reasoning of decisions issued by the Supreme Council of Magistracy.

¹ OSCE, Russia, Ukraine, Moldova, Transnistria, plus the EU and the USA as observers

The principles of integrity and meritocracy are not always upheld. In particular, more efforts are needed to improve the integrity of all justice sector stakeholders. Amendments to the law on professional integrity testing were adopted in 2016 to allow the introduction of the concept of institutional integrity assessment. Moreover, open court hearings and the publication of court decisions are crucial for public trust.

Corruption remains wide-spread. In the society, there is a perception of prevalent corruption also among high level officials. The 2011-2015 National Anti-Corruption Strategy was extended to 2016 and a new one will enter into force in 2017. Laws have been adopted to align anti-money laundering legislation with European legislation and improve integrity testing. The law on the set-up of an asset recovery service is currently being discussed in parliament. However, attempts to amend or alter the newly approved laws without consulting civil society can undermine their effectiveness.

Moldova has formulated a draft law amending and completing legislation on **cybercrime**, which awaits parliamentary approval. Cooperation agreements with **Eurojust** and **Europol** are in place. On top of the standards required to conclude an agreement with Europol, legislative alignment in the wider field of data protection is well advanced. Moldova is preparing to align its legislation with the fourth EU Directive on **money laundering**. However, a comprehensive new legislative framework and strategy with the necessary provisions for effective implementation and follow-up are needed together with increased resources for the relevant authorities.

3. Economic development and market opportunities

3.1 Trade and trade-related matters

The **DCFTA** established a free trade area between the EU and Moldova for trade in goods following the provisional application of the EU-Moldova Association Agreement on 1 September 2014. In November 2015, Moldova announced that the conditions had been fulfilled for **DCFTA** application on the entirety of its internationally recognised territory.

The EU has consolidated its position as Moldova's main **trading partner**. 63% of Moldovan exports currently go to the EU, with around 50% of Moldovan imports coming from the EU.

In 2016, the Moldovan authorities made significant efforts to align with EU regulations and standards. The EU has been providing substantial financial and technical assistance to help the Moldovan administration align with and implement the EU *acquis* and to support Moldovan small and medium-sized enterprises (SMEs) in accessing the EU market.

On **technical barriers to trade**, primary cross-sectoral legislation was adopted in general within the timeframe set by the AA and is now largely in place. This includes market surveillance, metrology and standardisation. However, secondary legislation is lacking, in particular the legislation on market surveillance and general product safety. Work on the approximation of sectoral legislation continues, albeit with delays caused either by the complexity of legislation or lack of financial resources to implement it.

Sanitary and Phytosanitary Standards (SPS) require further reform. The country's SPS strategy is set to be approved in January 2017. The Ministry of Agriculture's competences in verifying **feed and food law**, animal health and animal welfare rules have been strengthened. Some steps have been taken towards grouping all laboratories under the National Food Safety Agency. Approximation and implementation of national legislation remain slow; diagnostic capabilities are also weak.

On **customs and trade facilitation**, new trade facilitation tools and measures have been implemented or are being implemented. These include: Authorised Economic Operators; e-customs declarations; Dual system (green and red channels at border crossing points). The customs service has improved its collaboration with other state institutions. The Regional Convention on pan-Euro-Mediterranean preferential **rules of origin** entered into force in Moldova in 2016. Further efforts to combat **tobacco smuggling** need to continue, including accession to the Protocol to the WHO Framework Convention on Tobacco Control. There was no progress on preparations to join the Convention on a common transit procedure.

Moldova's progress in the field of **services and establishment** does not reflect market requirements. The Civil Code, labour legislation and immigration policy need modernisation to ensure efficient and acceptable labour market conditions for foreign employers and employees. On **services**, a new law on postal services entered into force in 2016. This law reduced the size of the postal monopoly and transferred the regulatory function from the Ministry to the national regulator. The government approved amendments to the law on **electronic commerce** in November 2016 (currently with Parliament for adoption).

Financial services still need to be developed and regulated. The insurance sector faces similar problems to the banking sector. Governance, shareholder transparency and the financial shape of the companies are still the main issues confronting the sector. These could affect the country's financial stability later on.

The **Competition Council** has made progress on regulating state aid by adopting sectoral regulations for various forms of aid. The electronic state aid notification and monitoring system is working well. However, a number of issues still need to be addressed regarding the factual independence of the Council and obstacles to competition.

On **intellectual property rights (IPR)**, relevant legislation on the protection of copyrights and certain related rights has been harmonised with EU law. Significant progress has been achieved on the protection of geographical indications. However, there are clear deficiencies in IPR enforcement, including in the justice sector.

In 2016, Moldova adopted a roadmap and action plan for implementing the **Public procurement** chapter of the AA/DCFTA. The roadmap is being discussed with the EU to ensure that it complies fully with the AA/DCFTA requirements. Accession to the World Trade Organisation Agreement on Government Procurement took effect on 14 July 2016.

A domestic advisory group on **trade and sustainable development** has been set up. It includes civil society. Since 2014, it has met twice with its EU counterpart to discuss developments in the field of trade, labour and environment; as a result, two joint declarations have been adopted and a work plan is being developed for the coming years.

3.2 Economic development

Moldova remains one of the poorest countries in Europe. A major **banking fraud** scandal, in which nearly \$1 billion (13% of GDP) vanished, erupted in November 2014. It exposed severe governance issues and led to the liquidation of three banks in October 2015 and to special supervision of three other major banks (which cover more than 65% of the banking sector) in June 2015. This enabled the National Bank of Moldova (NBM) to avert further spill overs. The banking fraud resulted in a drop in economic growth, the suspension of budget support by donors, and weakening of the fiscal position and the balance of payments. Following the recession in 2015, growth is expected to reach around 2% in 2016.

Against this backdrop, Moldova and the International Monetary Fund (IMF) agreed on a support programme on 7 November 2016 to swiftly improve financial sector governance and supervision, strengthen policies to ensure macroeconomic and financial stability, and foster sustainable and inclusive growth. Moldova has undertaken prior actions prescribed by the IMF, which included improving the supervisory regime, completing the NBM's management team and oversight bodies, and improving the governance risk management of banks. To create a sound and fully functioning financial regulatory and supervisory framework, the NBM and the National Commission for Financial Markets have been aligning the regulatory and supervisory regime with international standards in accordance with relevant EU legislation. The EU, the IMF and the World Bank have lent their support.

Investigations still need to be carried out to bring all those responsible for the banking fraud to justice. The poor handling of the investigations has a bearing on the overall process.

The **business environment** was still affected by wide-spread corruption and inconsistent policies, which have a negative effect on the investment climate. Consolidation of economic interests in the hands of fewer people is ongoing. This creates interference risks for public policy. Access to finance, in particular for SMEs, remains difficult. To improve conditions for business, the Economic Council under the Prime Minister and bringing together state institutions, the business community and civil society organisations, was relaunched and adopted several measures in favour of business activity. The long-term and medium-term policy framework for the development of micro, **small and medium-sized enterprises** is outlined in the SME Sector Development Strategy for 2012-2020, the corresponding action plan for 2015-2017 and the recently adopted SME Law.

The success of Moldova's **industrial and enterprise policy** largely depends on the extent to which the country is able to assimilate modern products and technologies and diversify its production and exports. Moldova needs to make further efforts to strengthen its market economy structures and competition.

The **Strategy on Agriculture and Rural Development** for 2014-2020 and the related action plan was adopted in 2015. The **Ministry of Agriculture and Food Industry** gained new powers on Rural Development in October 2015. The public sector needs support to enforce the strategic approach on sustainable development in the agro-food sector, improve statistical data and strengthen its analytical capabilities. The EU has been providing significant financial assistance to help improve the quality of rural livelihoods and the sustainable and inclusive development of rural areas.

In 2015, more than 90% of direct budget spending on agriculture went towards making the agri-food sector more competitive by **modernising** it and increasing its **market integration**. Moldova still faces challenges in making its agriculture more competitive on high-value markets. Further investment in research but also harvest, post-harvest and processing infrastructure would be needed to increase the quality of Moldovan horticultural production and with it its export capacity. There is a need to increase job opportunities in rural areas, in particular by supporting business conditions for SMEs and family farm owners through knowledge transfer, as well as support in setting up cooperatives. **Rural infrastructures** require modernisation to make life in rural areas more attractive.

Regional development in Moldova has been fragmented up to now. The 2016-2020 National Strategy for Regional Development details a transition to an integrated multi-sector approach by 2018. It places greater emphasis on the contribution to economic development by promoting sustainable economic growth in the regions. A governance mechanism consisting of regional development agencies and councils needs to be strengthened, and territorial-administrative reforms need to be implemented at local level. On **maritime affairs**, Moldova

expressed interest in taking part in a multilateral cooperation on blue economy development in the Black Sea and participated in the high-level stakeholder conference held in Odessa in June 2016. On **fisheries**, Moldova attended the High-Level Conference towards Enhanced Cooperation on Black Sea Fisheries and Aquaculture in Bucharest. The conference resulted in an agreement to improve fisheries management and enhance multilateral cooperation.

The activity and **employment** rates are 42.4% and 40.3% respectively. Official unemployment is low, reflecting low labour market participation and informal work, but youth unemployment remains high (13%). Moldova's employment is largely rural and is based on agriculture, low productivity sectors and crafts. Approximately one third of the working population is employed in the informal economy, while more than half are thought not to declare their wages. Around a fifth of the labour force works abroad. There is no strategy for better use of remittances that could boost economic growth and employment. Moldova still lacks a strategic vision for its employment challenges and relies mainly on donors for developing policy strategies and funding them.

Nine of the EU **health and safety at work** directives and five of the EU labour law directives have been transposed or are in the process of being transposed. The Ministry of Labour, Social Policy and Family has developed its own roadmap for harmonising with EU legislation. Approximation with the Occupational Safety and Health (OSH) "Framework Directive" would necessitate a fundamental shift away from the prescriptive system of legislation. There is no effective law enforcement system on working conditions and labour rights. Contrary to ILO's international standards, current legislation limits the power of the **labour inspectorate** to perform its tasks. Recent legal amendments aiming to strip the labour inspectorate of its competences in the area of safety and health at work are being reconsidered.

Amendments to the **Labour Code** are currently under way, together with a new law on foreign work and migration. Planned changes are intended to make the legislative framework better equipped for modernisation of the labour market, skills development and vocational education training (VET) reform, which is being undertaken with EU support.

There is an overall delay in strengthening both **public health** capabilities and legal approximation to the *acquis* in the area of cosmetic products, pharmaceuticals and medical devices. The 2007-2021 **National Health Policy** and 2008-2017 Healthcare System Development Strategy 2008-2017 are in place and a new Health Code has been drafted to become the cornerstone of **health legislation**. The main achievements on legal approximation to the *acquis* include: a law on tobacco control, an amended law on human organs transplantation and corresponding implementation measures; secondary legislation on food enzymes as well as an early warning and quick response system for prevention, control of communicable diseases (November 2016).

In 2016, Moldova became the first ENP country to join the **EU Health Programme 2014-2020**. It will participate in all five joint actions areas. In the health sector, **hospital reform** and the National Hospital Master Plan for 2009-2018 have not yet been implemented.

Reform of the **pension system** is one of the major planned **social protection** reforms, aiming to provide a fair and sustainable system that guarantees decent pensions. Reform of the **social insurance sector** is a high-level priority for the government. The aim is to improve the institutional capacity of the Social Insurance House as well as ensure a political and social consensus in support of the proposed reform.

4. Connectivity, energy efficiency, climate action, environment and civil protection

Moldova is making gradual progress on the approximation of EU **environmental legislation**. A number of legal acts have been adopted, including framework laws on environmental impact assessment (January 2015) and on waste management (adopted by the Parliament in July 2016, but pending promulgation); draft laws on strategic environmental assessment, on chemicals management and on genetically modified organisms (adopted by the government in 2016). The strategic framework has been in place since 2014, and included regional sectoral programmes on water supply and sanitation, as well as solid waste management. In addition, a strategy is currently being drawn up on atmospheric air protection.

The main focus in the environmental sector is institutional reform to ensure that all policy documents and legislation are implemented. Although the Ministry of Environment has developed a draft institutional reform concept, it has not been adopted yet and its implementation will depend on overall public administration reform.

The President of Moldova signed the **Paris Agreement** on climate change at the UN General Assembly on 21 September 2016. Preparation for its ratification is under way. The final draft of a 2030 low emissions development strategy is being completed and awaits governmental approval. The 2015-2020 **Climate Change Adaptation (CCA) Strategy** is currently being implemented. An institutional capacity assessment was performed in six key sectors (agriculture, energy, transport, health, regional development and forestry) and a capacity development plan has been developed based on this. CCA action plans for the health and forestry sectors have also been developed. However, climate change in all areas of policy making remains a key challenge for Moldova as there is still no permanent institutional framework for the inter-sectoral coordination of climate action.

Moldova joined the **Energy Community** in 2010 and has transposed legislation in line with its obligations. New natural gas and electricity laws based on the EU Third Energy package were adopted by the Parliament in 2016, as well as a new law on renewable energy sources. Secondary legislation needs to be developed for these to become fully effective. An energy law to reinforce the independence of the energy regulator is still pending parliamentary approval. Moldova has been working closely with the European Commission, the Energy Community and donors to prepare construction of the Ungheni-Chișinău pipeline in order to diversify natural gas supply sources. Loan agreements for this project were signed with European financial institutions on 19 December 2016. Several reforms are still needed to ready the energy market for the successful operation of this pipeline and to develop similar gas interconnections with Romania, which are envisaged by 2020.

The government approved a new **Aviation Code** in October 2016, whose aim is to transpose part of the EU-Moldova Common Aviation Area Agreement. However, so far less than half of the provisions have been transposed. Effective competition in the ground handling sector has not yet been restored. The **merchant fleet** sailing under the Moldovan flag remains on the black list of the Paris Memorandum of Understanding on Port State Control and major efforts are still needed for Moldova to be removed from it. An important project to restructure and modernise the **Moldovan rail sector has started with EU support**. However, a new Railway Code and a new law on the creation of a railway agency, which should be compliant with the relevant EU directives, still need to be adopted. Further efforts are required to improve road safety, implement the Road Rehabilitation Programme and strengthen the capacities of the State Road Administration. The EU has invited Moldova to prepare a list of mature transport projects located in the TEN-T core network.

5. Mobility and people-to-people contacts

The EU and Moldova agreed on a **Mobility Partnership** in 2008. So far, 16 EU Member States have participated in it. The visa-free regime granted by the EU is working well. Since its introduction in April 2014, Moldovan citizens have travelled to the EU and the Schengen Area more than two million times. The non-admittance rate is very low. Migration due to the country's economic and political situation continues. This is often based on dual citizenship (mainly Romanian), which allows Moldovans to legally reside and work in the EU. In 2015, the 28 EU Member States issued 15,328 new residence permits to Moldovan citizens.

At the 7th EU-Moldova Joint Readmission Committee meeting on 7 July 2016, cooperation on readmission and return was deemed to be positive, as attested by a high return rate of Moldovan citizens from the EU (76.3% in 2015).

In April 2016, an action plan for 2016-2020 was approved on implementing the Strategy on **Migration and Asylum** (2011-2020). However, domestic resources for its implementation are limited. Irregular immigration through the country to the EU is minimal.

The school enrolment rate in Moldova is low. The 2014 **Education** Code and the Education Development Strategy for 2014-2020 provide a basis for new policies in the education sector. However, their implementation is poor and secondary legislation still need to be prepared and adopted. The quality of primary and secondary education requires further improvement. The implementation of provisions for the third cycle of higher education (i.e. doctoral programmes) that were adopted in 2014 and revised in 2015 still faces challenges, mainly due to a lack of coherence between education and research laws.

Slow progress was made on implementing the **Vocational Education and Training** Strategy in 2015 and 2016. The government has demonstrated a strong commitment to implementing the legal procedures needed to renew the VET system.

Following its association to the Horizon 2020 Programme, a peer-review of Moldova's **research and innovation system** was conducted. Its key policy messages and operational recommendations presented in July 2016 pointed to the pressing need to launch the reforms needed to modernise and increase the competitiveness of research and innovation, in particular by improving the governance of the research and innovation system and making the allocation of funding more independent, transparent and accountable.

In the **culture sector**, Moldova joined 'Creative Europe' in March 2016. This should ensure that Moldova is better integrated into Europe's culture and audiovisual sectors. A Creative Europe Desk was co-funded by the programme to help the Ministry of Culture to promote existing opportunities. The EU also undertook a technical mission in September 2016 to this end. The regional EaP Culture and Creativity Programme provides support for capacity building in the sector. Other forms of cultural cooperation, including the mobility of art and artists, are mostly covered by bilateral relations.

The Ministry of Youth and Sports launched an EU-funded **national youth survey** in 2016 to help formulate youth programmes and actions. The **National Strategy of Youth Sector Development** 2020 was adopted at the end of 2014. The Strategy is based on the 'Moldova 2020' National Development Strategy. It is aligned with the principles, objectives and fields detailed in the 2009 Council Resolution on the renewed framework for European cooperation in the youth field (2010-2018). Limited funds are available to implement its action plan. The government is working on a revised version of the law on young people adopted in 1999. Cooperation on sports and physical activity is limited.

6. Financial assistance

The EU allocated EUR 310 million in financial assistance to Moldova under bilateral cooperation programmes from 2014-2016. The 2014 Annual Action Programme (AAP) supported public finance reform (€37 million), agriculture and rural development (€64 million) and DCFTA implementation (€30 million). The 2015 AAP focused on PAR (€15 million), police reform (€57 million) and civil society cooperation (€8 million), and a technical cooperation facility (€ 5 million). An additional contribution of EUR 5 million was made available for Moldova's participation in the Danube Transnational Programme.

EU assistance has helped create jobs, improve living conditions and support modernisation of the administration. Several key projects completed in 2015-2016 led to the following achievements: new drinking water supply infrastructures built in several municipalities (e.g. Nisporeni, Vărzărești and Grozești), providing safe drinking water to more than 15,000 people; public transport improvements in Chisinau and Balti; biomass heating systems installed in 225 public buildings (e.g. schools, village halls), creating better and cheaper heating; eight business incubators set up (e.g. Cimislia, Nisporeni...); confidence-building measures allowing 70 people from both sides of the Nistru River to set up businesses and create 350 jobs.

The 2016 AAP supports job creation in rural areas and rural development (EUR 60 million); the programme also helps support implementation of the AA/DCFTA by way of an assistance package for a technical cooperation facility (EUR 29 million).

In 2014-16, the EU provided EUR 62.85 million in investment grants through the Neighbourhood Investment Facility to support the development of water supply and sanitation infrastructure, road rehabilitation, railway restructuring and the implementation of energy efficiency and environmental protection measures. The EU also supported civil society by way of the European Instrument for Democracy and Human Rights (EUR 1.5 million), Civil Society Organisations and Local Authorities Programme (EUR 1.125 million) and the Confidence Building Measures Programme (EUR 6.5 million) and the EUBAM (EUR 14 million from the ENI East Regional Action Programme).

Moldova also benefits from regional programmes that support SMEs, energy, transport, the environment, access to finance, growth, as well as the overall business environment. Moldova also participates in cross-border cooperation (CBC) programmes such as the Black Sea Basin Programme, the ENPI CBC Romania-Ukraine-Moldova Programme, the ENI CBC Romania-Moldova Programme and the Interreg Danube Transnational Programme.

Following approval of the IMF programme and based on Moldova's fulfilment of the conditions for certain budget support programmes, budget support payments under these programmes have been resumed. Payments were proportionate to the conditions being met, as specified in the financing agreements.

The Commission has also taken measures to follow up on the European Court of Auditors' Special Report No 13/2016 on "EU assistance for strengthening the public administration in Moldova" and the related Council conclusions of 19 December 2016.

In response to Moldova's request for macro-financial assistance (MFA), reiterated in March 2016, and taking into account the country's external financing needs, the Commission adopted a proposal on 13 January 2017 for a Decision of the European Parliament and of the Council providing MFA to Moldova of up to EUR 100 million. The new funds will be disbursed in three instalments in 2017-2018. Strict conditions will be attached to all disbursements.

7. Concluding remarks and future outlook

2016 was a year of new beginnings. These have yet to translate into a more consistent implementation of reform steps. Following the February 2016 Council Conclusions on Moldova, significant legislative work has been carried out. Based on this legislation, it is crucial that implementation takes place geared to tangible results. The importance of reforms is also one of the main aims of the Eastern Partnership Summit in Brussels in late 2017.

The IMF programme agreed on 7 November 2016 was an important milestone in putting the country back on the path of macro-financial stability. This also allowed EU budget support payments to be resumed. It is vital that the IMF programme stays on track. This will also allow the EU to make further payments to the Moldovan budget and to envisage macro-financial assistance.

These positive steps can serve as a basis for future consolidated action towards successful transition, anchored in democracy, good governance and the rule of law. In this context, revision of the Association Agenda, which will be adopted in the first half of 2017 and will cover the period 2017-2019, will provide tailor-made short-term and medium-term reform priorities. These new political priorities will be supported by new multi-annual programming for 2017-2020, which will guide EU cooperation with Moldova. Considerable attention to ensuring respect for universal and European standards is needed. In addition to further technical reforms, the EU will continue to pay close attention to developments in the field of human rights, including prosecution practices, the independence and transparency of the justice system, the fight against corruption and media freedom.

In line with the joint commitments undertaken by the EU and Moldova under the Eastern Partnership, and in the spirit of the ENP review and the EU Global Strategy, the EU will continue to support Chişinău in the implementation of policies, which yield tangible and visible benefits to the citizens of Moldova, and will make society more resilient.