

The need to implement a complex public administration reform derives from three fundamental *reasons*:

- *Economic.* Promoting the reform by rationalizing the number of public institutions and civil servants will contribute to a reduction of administrative costs and their channelling towards better-quality civil services.
- *Social.* The quality of civil services provided to citizens will be improved, while the interaction between the civil society and administrative bodies will be strengthened. Also, a better transparency of the decision making process will enhance the society's confidence in public authorities and will strengthen their cooperation in implementing programs of national importance.
- *Political.* A public administration that was reformed based on the best international practices will contribute to the improvement of Moldova's image both inside the country and abroad. The establishment of an efficient, corruption-free public administration with qualified staff increases the country's chances of cooperation with and integration into European and international structures.

The synergy between the decision making process' efficiency, civil servants' activity, interaction among public institutions and correlation between strategic planning and budgetary process will back and spur the implementation of the entire range of policies and reforms promoted by the Government.

Central Public Administration

The need to build the capacity of the central public administration with a view to improving the general performance of public administration is not something new for the Republic of Moldova. Attempts to improve the institutional structure and build capacity have been made at different stages of the transition period. Yet, these transformations were rather segmented and were not based on well-defined and accepted principles. Despite the results attained in the process of building a functional market economy, the central public administration (CPA) in the Republic of Moldova continues to perform functions that don't exactly correspond to the state's role in such an economy. Moreover, the poor management of human resources and, particularly, the lack of an efficient and competitive incentive scheme, undermines the process of capacity building of public administration staff.

The Central Public Administration Reform launched in 2005 is a systematic and comprehensive effort, and is targeted towards a transparent, predictable, responsible, and efficient public administration, which would meet the society's demands and correspond to the European standards.²¹ The reform process is focused on four key objectives: (a) modernization of public administration based on a functional review and institutional reorganization; (b) improvement of human resource management; (c) optimization of the decision making process; and (d) improvement of public finance management. The regulatory reform is also an integral part of the public administration reform, and is being carried out under close coordination with the other components of the reform process.

To the effect of improving the institutional structure of public, the central public administration reform strategy envisages two tasks: (i) redefining the competences and functions of central specialized public administration authorities; and (ii) reconfiguring the structure of the central executive body, taking into account the Government's priority-driven activities. At its turn, the redefinition of competences and functions was performed in two stages. During the first stage, analysis was performed and recommendations were made to improve the internal processes and delimitate functions of 28 institutions of the central public

²¹ The Central Public Administration Reform in the Republic of Moldova, 2006.

administration. For the second stage, 159 central public authorities were identified and analyzed, as well as 24 deconcentrated services.

Selective organizational reforms, including a reduction of the number of staff, were implemented during the second stage of the functional review. Yet, they were not sufficient for an efficient public administration reform. During the second stage of the functional review, which had a much broader scope, an analysis was made in five major sectors: justice and internal affairs; agriculture and environment; health care, education and culture; economic development; governance and public finance. The functional review at this stage revealed a series of problems, which hinder the efficient operation of the CPA: excessive centralization, redundancy of functions and overlapping of responsibilities, potential conflict of interest determined by insufficient delimitation of functions related to policy development, regulation and provision of services, preservation of functions that do not fall within the Government's competence, and existence of mandates for which no resources are allocated. The lack of efficient systems to coordinate the processes of planning, monitoring and assessment of policies both at strategic and institutional level is another serious challenge.

The implementation of the functional review's recommendations to solve the identified problems is a major task over medium term. Based on these recommendations, before mid-2008, development plans for each ministry will be developed and implemented. The improvement of strategic planning at sector level will be ensured by building capacity for policy analysis, monitoring and evaluation divisions in seven ministries²² and creating similar structures in the remaining ministries. Special attention will be paid to the functional reorganization of the Government Apparatus. To the effect of building the strategic policy planning and coordination capacity, a Policy Analysis Coordination Unit (PACU) was created in the Government Apparatus, the capacity of which will be further strengthened. Over medium term, the PACU will promote and methodologically coordinate the modernization of the entire system of strategic planning of Government activities, the improvement of the decision making process, and will ensure a better correlation between priority actions and available resources.

With a view to defining general principles of organization and operation of central public administration, a draft law on central public administration was developed. This law will provide a unique framework for the operation of central public administration. The draft law envisages that each ministry have a function responsible for the ministry's administrative activity, ensuring the link between the ministry's subdivisions and the sector subdivisions of the Government Apparatus. The introduction of this function will allow to perform a more efficient management of central public administration, as well as to reduce the current excess of ministers' managerial tasks.

The poor performance of central public administration is to a large extent determined by lack of an efficient and competitive incentive system for civil servants. In particular, the low pay level does not allow to attract and retain well-trained specialists in public administration, and creates space for corruption in the system. Low salaries contribute to a high level of staff turnover that undermines the capacity building efforts made until now, in particular through foreign technical assistance projects. Also, the remuneration structure is not transparent enough: the system does not provide a clear-cut connection between performance and level of remuneration. To this effect, reforming the incentive system for civil servants is an important part of CPAR.

²² Policy Analysis, Monitoring and Evaluation Units exist at the Ministry of Education and Youth, Ministry of Health, Ministry of Social Protection, Child and Family, Ministry of Agriculture and Food Industry, Ministry of Industry and Infrastructure, Ministry of Transport and Road Administration, and Ministry of Justice.

The pay system reform was initiated by approval of the Law No. 355-XVI of December 23, 2005 on Budget Sector Pay System for 2006-2010, which envisages a gradual increase of salaries for public sector staff, including civil servants. Thus, during the first two years of implementation, the average monthly salary of civil servants has doubled, making MDL1,614 in 2007²³. Despite this increase, the level of pay in the public sector is still lower than in other branches of economy. On the other hand, the partial implementation of salary increase has already resulted in significant expenses for the budget, and the further growth threatens to reduce the available resources for capital expenditures. Reform implementation only at the central public administration level and saving achieved by streamlining the number of civil servants will not ensure sufficient resources to essentially increase salaries for all public sector staff. Therefore, a comprehensive reform meant to streamline the structures and the number of staff in the whole public sector should be implemented.

The real growth of civil servants' capacity will be ensured by the implementation of a comprehensive reform of the incentive system, which is not limited just to increased salaries. In the short term, the existing practices of classification and ranking of public officers will be put in line with a more efficient remuneration of public officers by ensuring a connection between the level of remuneration, on the one hand, and the employees' efforts, skills, and performance, on the other hand. In the mid-term, a new system of ranking and remuneration will be developed in the following stages: (a) elaboration of job description for each standard positions in the public service, (b) elaboration of the system of position assessment, (c) determination of ranking structure parameters, (d) introduction of standard positions into the ranking structure, (e) determination of the level of remuneration for each standard position, taking into account total available resources for remuneration in the public service, and (f) elaboration of legislative framework on remuneration system and rules of performance-based career development.

In order to streamline the management of human resources, a number of laws stipulating new approaches to staffing policy in public service were drafted: the draft Law on Public Function and Statute of Civil Servants and the Code of Ethics of the Civil Servant. The draft law stipulates: (i) separation of political functions from administrative functions; (ii) competitive employment and merit-based promotion in civil service; and (iii) creation of the central administrative body responsible for civil service management. The improvement and approval of the draft law, and the creation and operationalization of the authority responsible for the management of human resources at central level are immediate goals. The Code of Ethics of the Civil Servant stipulates a number of behavioural standards for public administration. The implementation of this Code will allow for a higher accessibility and transparency of major activities of the public administration.

Capacity building of central public administration is a continuous and long-lasting process. Throughout the implementation of the Strategy, the central public administration will intensify its efforts to implement the initiated activities and to further develop the reform agenda (strategic development plans) for each separate component. The following major objectives will be achieved within this reform, by 2011:

- (i) practical delimitation within the central public administration of policy development functions from policy implementation functions;
- (ii) strengthening the capacity of central public administration for policy analysis, monitoring and evaluation, improving the reporting system and decision making process;

²³ Medium-Term Expenditure Framework (2008-2010).

- (iii) establishing a core of professional civil servants, including the introduction of a new motivation system; and
- (iv) creating an efficient and sustainable interaction system between policy development and budgetary processes.

Local Public Administration

The previous experience with national development programs' implementation demonstrates that the insufficient involvement of local public administration (LPA) in the process of policy development and implementation generates increased territorial gaps in the socio-economic development of the country. To this effect, enhancing the role of local public administration implies both improving its competencies by increasing the degree of decentralization, and building capacity in policy implementation and provision of public services.

The evolution of the role and performance of the LPA have been marked by the territorial-administrative reforms in 1999 and 2003. However, in general, services provided at local level are still largely inadequate and of poor quality. In particular, local public authorities are responsible for providing general education services, ensuring rural infrastructure and, partially, health services. Despite the fact that the share of expenditures for education and health is relatively high in the local budget, the problem of quality and inequitable access to these services still persists. Because resources allocated for maintenance and repairs of rural infrastructure were limited, it has significantly deteriorated.

The problems identified during some studies show reduced and insufficient fiscal capacity of territorial-administrative units, discrepancies between the financial resources of local public administration authorities and competencies envisaged by legislation, as well as the fact that public services' decentralization is not performed in parallel with the transfer of funding. At the same time, public control is weak because the community does not participate in the monitoring of public sector and services provided. Reduced capacity of civil servants at local level, explained by the poor motivation and insufficient training, is another factor determining the poor quality of services provided by the LPA.

Increasing the role and strengthening the capacity of local public administration will be accomplished in the context of the Regional Development Strategy's implementation. To this effect, during the period of NDS implementation, the following objectives will be pursued:

- Improvement of the institutional framework and incorporation of sustainable development principles in local policies;
- Clearer delimitation of functions and responsibilities between central and local public authorities, and increased autonomy of the latter ;
- Strengthened local autonomy of local public administration authorities by continuing the fiscal and financial decentralization process;
- Capacity building for local authorities in participatory planning, budgeting, monitoring and assessment of activities at local level;
- Implementation of the National Strategy for Training of Civil Servants and Locally Elected Authorities and establishment of conditions for improved human resource management.

Given the aforementioned, it is necessary to enhance the autonomy and capacity of local public administration, especially at level I, to ensure localities generate their own revenues, have an efficient management of resources and stimulate the development of localities' economic potential. In the context of administrative decentralization, it is necessary to work out an action plan that would set distinct implementation stages for the administrative decentralization process in the Republic of Moldova. This will allow to avoid ambiguities and

overlaps in delegating competencies, clarifying the transfer of financial and material resources, also addressing the correlation between the transfer of competencies and the necessary resources. After the legislation on local public administration and on administrative decentralization is passed, the revision of the legislation on local public finances will follow, establishing an equitable method to balance the financial possibilities of territorial-administrative units.

To the effect of strengthening the capacity of civil servants, the Government will ensure the implementation of the National Strategy for Training of Civil Servants and Locally Elected Authorities, developed in line with the recommendations of the Council of Europe. This strategy sets out the grounds for a continuous training of civil servants and locally elected persons from the local public administration with a view to increasing their competency, performance and competitiveness.

V. NATIONAL MEDIUM-TERM PRIORITIES

1. Strengthening Democracy Based on the Rule of Law and Respect for Human Rights Principles

Analysis

Protection of human rights

With the declaration of independence in 1991, the Republic of Moldova embarked on a long and complex process of transition towards a democratic regime and market economy, accompanied by important social and economic changes. This transition assumed a fundamental review of the role of the state and of the rights and duties of the population in general and individual human beings in particular. The transition process required the emphasis on human rights as a fundamental factor for national development and, as a consequence, Moldova has undertaken significant efforts to harmonize the national legislation with the international provisions regarding human rights and fundamental freedoms.

Since its independence, all national and local elections, including the recent local elections as of June 3, 2007, have been generally considered as free and fair, although in some cases they did not fully comply with the international obligations regarding democratic elections, especially concerning the pre-election campaign and media independence. In 2006, the Parliament adopted the new Audiovisual Code aimed at fighting political interference within the operation of the National Radio and TV. A great number of non-governmental organizations, mass media sources, as well as the Council of Europe have recognized that the new Code is in accordance with the relevant international standards. Still, the need to ensure a transparent relationship between the authorities on the one hand, and mass media and civil society on the other remain a priority for enabling the functioning of a participatory democracy.

Moldova has acceded to the Universal Human Rights Declaration in 1990 and the majority of international human rights treaties in the following years. The Constitution of the Republic of Moldova of 1994 provides for the observance of human rights and fundamental freedoms, in accordance with universally accepted provisions and international treaties signed by Moldova. Moreover, Article 4 of the Constitution establishes the supremacy of international human rights documents over the national legislation. In order to strengthen the institutional human rights framework, the Republic of Moldova has introduced in 1996 the institution of ombudsman (Parliamentary Advocate) and established the Human Rights Center. The main task of the Parliamentary Advocates is to consider individual recourse from individuals whose rights and freedoms have been violated in the Republic of Moldova.

A significant step in the process of human rights' promotion was the accession to the European Convention of Human Rights and Fundamental Freedoms in 1997, which enabled the citizens of Moldova to have access to the European Court of Human Rights (ECHR), an important international jurisdictional body. During November 1, 1998 – 2006, citizens of Moldova submitted approximately 2,800 recourses, and the Court issued 42 decisions against Moldova. The ECHR decisions against Moldova may be considered as an indicator of flaws within the national judiciary and the human rights protection system in general. At the same time, even in countries with old democratic traditions and a strong judiciary the number of is high, and the increase in the number of from Moldovan citizens points to the fact there is an

increased awareness level by individuals regarding their rights and fundamental freedoms guaranteed by the state and that they adopt an active role in claiming these rights.

Aspiring towards approximation to European values and European integration, the Republic of Moldova has committed to observe human rights and fundamental freedoms and strengthen the stability and efficiency of institutions responsible for safeguarding democracy and the rule of law, including by strengthening its administrative and judicial capacity. These commitments were reflected in the Economic Growth and Poverty Reduction Strategy Paper, the National Action Plan for Human Rights, and the Moldova-EU Action Plan. Although the legal framework for the protection of human rights and fundamental freedoms is in accordance with the international standards, there are certain drawbacks in real life, especially regarding the rights of people in detention, access to justice, prevention of such complex phenomena as domestic violence and trafficking of human beings.

A number of studies and reports by non-governmental organizations point to numerous violations of the rights of people in detention. The existence of serious problems in this field is also confirmed by the analysis of recourse received by the Human Rights Centre. Thus, during 2006, the Centre received 1,913 petitions, of which 53% have been submitted by people in detention. Over 25% of recourse refer to the lack of free access to justice and the right to a fair trial. Among the main factors contributing to the violation of the rights of people in detention is the high level of corruption, abuse of power by the law enforcement bodies, lack of knowledge about their rights, and the poor quality of the ex officio legal assistance.

The Republic of Moldova continues to face multiple negative social phenomena that affect the most vulnerable layers of society, such as domestic violence and trafficking of human beings. There are difficulties in monitoring these phenomena because the victims often avoid reporting or discussing these violations. According to some reports, approximately 41% of the interviewed persons stated that they had been victims of domestic violence at a certain point of their life. Still, the number of official reports to the law enforcement bodies remains low. One of the main reasons to avoid the reporting of domestic violence cases is the lack of a well-defined protection mechanism for the victims of such phenomena.

Domestic violence contributes to increased levels of vulnerability to trafficking of human beings. According to the data of the International Organization for Migration, the majority of assisted victims of trafficking had been subjects of domestic violence and, as a consequence, were ready to face an increased level of risk to avoid the abuse within their families. Although during 2005-2007 the legal framework to prevent and combat trafficking of human beings and domestic violence has been strengthened by adopting the anti-trafficking law, the law on domestic violence, the law on equal gender opportunities, etc., the establishment of an enforcement mechanism is necessary for an efficient implementation of these laws.

The judiciary and independence of justice

The legal and judicial reform in the Republic of Moldova has started in 1994 by introducing a four-tier system – circumscription courts, tribunals, the Court of Appeals, and the Supreme Court of Justice. During 2002-2003, aiming at improving the access to justice, the judiciary has been subjected to a new stage of reform, which has led to the improvement of the system and its organization in a three-tier system – circumscription courts, courts of appeal, and the Supreme Court of Justice. During both periods, the reform of the judiciary has been based on the modernization of the administrative structure as a factor that contributes to the elimination of deficiencies in the operation and administration of justice.

The main administration authority within the judiciary is the Superior Council of Magistrates, an independent body with competencies pertaining to the appointment, promotion, transfer, sanctioning, and dismissal of judges, consideration and submission of draft budgets of courts and reporting on the organization and functioning of the judiciary. To insure the independence of justice, the framework that guarantees impartiality and irrevocability of judges has been strengthened repeatedly, especially by increasing the authority of the Superior Council of Magistrates and increasing its independence in relation to the executive.

However, the efficient functioning of the judiciary and a fair administration of justice continues to be a challenge. The courts of law are faced with a great workload. Thus, during 2006, the judiciary has considered 250 thousand cases; the workload of a single judge is of 73 cases per month. One of the main factors that contributes to the overloading of the judiciary is the limited use of alternative methods of conflict resolution. The implementation of alternative methods, such as mediation and probation, will contribute to the efficient functioning of the judiciary, as well as to the protection of human rights and avoidance of delays in the consideration of cases.

At the same time, the judiciary is facing a number of serious problems, such as inadequate premises, low quality of infrastructure of the courts and equipment, as well as limited practical capacity in the summoning, hearing and disciplining of parties. The lack or limited number of court-rooms may affect certain vulnerable groups such as minors, victims of domestic violence and trafficking of human beings, etc. The majority of these problems that have serious consequences on the image and quality of justice are due to the limited number of resources allocated to the judiciary. Although during the last years the means allocated to the judiciary have been constantly increasing, they are still insufficient to cover the needs. At the same time, the increased budgetary allocations should be accompanied by an increased efficiency in funds' management. An important step in this direction has been the empowerment of courts to independently manage their budgets as of January 1, 2005. Still, for an efficient planning and use of medium-term allocations, the reform of judiciary financing remains a priority.

The quality of justice is also affected by the deficit of qualified human resources and the limited capacity of court staff to match the current requirements (including judges and support staff). To fulfil their tasks professionally, judges need to have access on a free-of-charge and permanent basis to continuous training courses. To accomplish this objective, in 2006 the National Institute of Justice was created, responsible for the continuous training of judges and prosecutors. According to amendments operated to the legislation, following the establishment of the Institute and starting in 2008, judges will have to attend at least 40 hours of continuous training per year, such training being provided for free and being mandatory in accordance with the law. Strengthening the Institute's capacity in relation to its curriculum, management and academic personnel will lead to a high-quality training of the judiciary and, consequently, to the improvement of the administration of justice.

One of the main issues remains to be the lack of enforceability of court decisions. Although during the last years a new legal framework regarding the execution system has been adopted, which includes the Execution Code and the Law on the System of Forced Execution, there is a great number of non-executed decisions. Thus, during 2006, from a total number of 301 thousands of executorial acts and 64 court decisions, more than 26% of the executorial acts and 42% of court decisions have not been enforced. There are a number of reasons that led to this situation, including the incapacity of the debtor to pay the compensation, or the fact that they have left the country, as well as the transfer of assets by the debtor in situations when the applicants do not manage to seal the property of the debtor at the beginning of the

legal proceedings. The insufficient funding of the executional system, given the fact that its costs are quite high, plays an important role in the accumulation of non-enforced acts and decisions. Under these circumstances it is necessary to reconsider the manner of organization and funding of executional activities.

Preventing and fighting corruption

Preventing and fighting corruption became an important priority for the Government of the Republic of Moldova and in 2006 the Government adopted the Action Plan for the implementation of the National Strategy for Preventing and Fighting Corruption. The Action Plan is implemented with the support of the civil society and international community. A number of non-governmental organizations created the Anti-corruption Alliance, which collaborates closely with the Center for Combating Economic Crime and Corruption (CCECC) in view of eradicating this phenomenon. An important aspect of the Government's actions in 2007 and nearest future are aimed at preventing corruption are the actions undertaken under the Threshold Program of the „Millennium Challenge” Corporation.

The Government undertook a series of measures to simplify the regulatory framework and the way in which public administration authorities operate to limit the opportunities for corruption, with the main ones following: reform of regulatory framework, introduction of the one-stop shop, optimization of the claims and petitions' processing system within central administration authorities, as well as increased transparency. To avoid the development of some new legislation and regulatory documents creating opportunities for corruption, the CCECC has initiated the project of anti-corruption expertise of legislative and regulatory draft documents. At the same time, public administration authorities, non-government organizations and the international community organized a number of events and public awareness campaigns regarding the consequences of corruption, which aimed at educating intolerance to this phenomenon.

The progress accomplished in preventing and fighting corruption was reflected in the Corruption Perception Index developed by Transparency International, which in 2006 has improved, growing from 2.9 in the previous year to 3.2. However, out of 163 countries included in the study carried out by Transparency International, Moldova is still in the second half of the rating. Furthermore, the surveys prove that corruption is still one of the subjects of major concern for the population of the Republic of Moldova. According to the Global Corruption Barometer developed by Transparency International, sectors and institutions most affected by corruption are (descending): police, judiciary, health services, political parties, the legislative, business community, education system. The surveys carried out by local non-governmental organizations confirm these results.

Given the aforementioned, to reduce corruption and increase the confidence of population in sectors perceived as being the most affected by corruption, regulatory, organizational and practical measures are needed. Such measures have to be focused on increasing transparency of the institution, building capacity of these institutions' staff, revealing and penalizing corruption cases. At the same time, it has to be recognized that such measures can not contribute to breaking away from the vicious circle of corruption unless they are structurally and institutionally supported.

Rationale

The functioning of democratic institutions and enforcement of the rule of law create a favourable environment for a sustainable and inclusive growth. Strengthening democracy based on the rule of law presumes respect for human dignity, human rights and liberties, free development of human personality, justice and political pluralism. This also includes equal

treatment and opportunities for every citizen. The existence of a predictable legal framework and a fair, transparent and efficient judiciary is essential for the protection of citizens against arbitrary abuse of power and illegal acts by individuals and private entities.

The consolidation of the modern democratic state based on the rule of law and respect for human rights will be secured by a continuous increase of the transparency of political decisions and administrative acts, development of the culture of cooperation with the civil society, and promotion of reforms meant to increase the population's confidence in public authorities. Given the increased number of complaints concerning abuses of power on behalf of law enforcement bodies, accompanied by the extremely low level of confidence shown by the civil society in relation to the efficiency, quality and transparency of bodies of interior, a complex reform of the police will be a major medium-term priority.

Strengthening of the judiciary by ensuring its independence, impartiality, credibility, and efficiency is a necessary condition for the rule of law. The measures required for the modernization and streamlining of the judicial system must lead not only to the efficient functioning of the system, but also to the fair practical enforcement of the legal and normative framework.

Preventing and fighting corruption is a requirement both for the functioning of democratic institutions and securing of human rights, as well as for general economic development. As a complex phenomenon, determined by various factors (economic, legal, institutional, social, ethical, etc.), corruption calls for a multidimensional approach and a permanent review of policies aimed at its reduction. The enforcement of restrictive measures only is not enough and a combination of prevention and reaction measures is necessary.

Since Moldova has an open economy, facing important migration flows and exposed to internal and global risks, there is an immediate need for a complex management of borders, both by strengthening own capacity and using cross-border cooperation opportunities.

Overarching goal of priority

Strengthening the operation mechanisms of democratic institutions and implementation practices in relation to the legislative and regulatory framework, with a view to an efficient and fair protection of human rights.

Objectives

- 1.1. Strengthening democracy, respect for fundamental human rights and freedoms**
- 1.2. Modernizing and increasing efficiency of the judiciary**
- 1.3. Preventing and fighting corruption**
- 1.4. State border management**

Programs and measures

- 1.1. Strengthening democracy, respect for fundamental human rights and freedoms**

Rationale

Democracy can only become sustainable when individuals trust the decision making bodies of the state and if the latter are serving the citizens and protect them against abuses. In this context, strengthening the judiciary may only be ensured by strengthening the institutions that protect the rights of citizens, ensure respect for the right to freedom of expression guaranteed

by the Constitution, and by increasing the transparency of the decision making process and implementation of political decisions.

The achievement of favourable conditions for permanent economic and social development in the Republic of Moldova is directly linked to the steadfast combating of crime, maintaining law and order, and ensuring the security of citizens within the community, which is a fundamental element for improving the quality of life. The modernization of police, so that it becomes more effective, democratic and community-focused, is essential for the observance of fundamental human rights, ensuring the rule of law and the country's development. This goal will be accomplished by adopting and implementing a community-based police activity, focused on prevention, precautionary action and partnership. The combating of trafficking of human beings and the prevention of abuse and torture are key-missions of a community-based police activity and are the results of a functional democratic system, in which the citizen is protected by the state.

Programs and measures

1.1.1. Improving the quality of the decisional act:

- (i) Improving the operation framework of participatory democracy, also by ensuring the transparency of administrative acts and political decisions, and the communication with citizens;
- (ii) Involving civil society in the decisional process concerning public interest, also through provision of all decisions of public interest and their drafts for „on-line” public discussions;
- (iii) Ensuring a transparent relationship between authorities and the media, as recommended by the Council of Europe;
- (iv) Ensuring the participation of young people in the decision making process, also through the extension of the local youth councils network at country level and of the models of youth self-governance within educational institutions.

1.1.2. Strengthening non-judicial institutions and mechanisms for protecting and promoting human rights:

- (i) Strengthening the legislative and institutional framework of the Ombudsman institution, with a view to:
 - o Ensuring the independence of parliamentary advocates;
 - o Rendering more effectively the activity of the Center for Human Rights in Moldova.
- (ii) Implementing the law on mediation and creating mediation services;
- (iii) Consolidating cooperation/partnerships between central and local public administration authorities and civil society in the field of education, promotion and protection of human rights.

1.1.3. Modernization of the police, aimed at rendering it more efficient, democratic and at increasing its accountability towards the community:

- (i) Strengthening the capacity of the Ministry of Interior in relation to the implementation of the police reform;
- (ii) Evaluating, jointly with other members of the justice system and the civil society, the actual state of police activity and determining the best ways to render it more efficient, more democratic and increase its accountability towards the community;
- (iii) Developing a strategy for community-based police activity for 2008-2011, focused on efficiency and manner of police activity, role of the community and

its capacity to participate in community-based police activity, structure, transparency and accountability of the police, relations between the police and the public, as well as relations between the police and other components of the justice system;

- (iv) Implementing and monitoring the strategy during 2008-2011, including its testing in a pilot-program in 2008;
- (v) Improving the system of staff training and professional development in the system of the bodies of interior and, in particular, of public order services;
- (vi) Preventing juvenile crimes by applying a set of special measures and programs for minors and their families living in an environment with an increased risk of delinquency, generating drug-consumption or promoting a criminal culture.

1.1.4. Preventing and combating family violence and trafficking of human beings:

- (i) Developing the management of statistical and informational systems in relation to cases of gender discrimination, family violence and trafficking of human beings;
- (ii) Creating and implementing the national system for violence prevention and victim protection, as provided by the Law on prevention and combating of domestic violence;
- (iii) Strengthening the National Committee for Combating Trafficking of Human Beings, expanding the National Referral System for the protection and assistance of victims of trafficking and its integration into the national social protection system;
- (iv) Consolidating the capacity of the Centre for Combating Trafficking of Human Beings in investigating and convicting traffickers, based on the principles of transparency and publicity;
- (v) Regulating migration flows by signing bilateral inter-governmental agreements in the areas of irregular migration, labour migration and social protection of migrant workers, and by promoting circular migration initiatives, in particular with the EU and its member-states.

1.1.5. Ensuring the rights of people in detention, as well as the rights of persons convicted to punishments that are alternative to detention:

- (i) Ensuring decent detention conditions for convicts and persons under preventive or administrative arrest;
- (ii) Improving the quality and diversifying training methods employed by police officers and employees of the penitentiary system in the field of human rights;
- (iii) Expanding and improving the forms of convicts' education and employment;
- (iv) Strengthening the mechanisms of preparing convicts for liberation and social reintegration;
- (v) Improving the legislation on alternatives to detention;
- (vi) Developing the probation service with a view to ensuring the rehabilitation of persons condemned to punishments alternative to detention;
- (vii) Building arrest houses.

1.1.6. Securing free access to justice:

- (i) Reforming the system of legal assistance guaranteed by the state by establishing an efficient mechanism of access to justice for socially vulnerable persons;

- (ii) Creating the National Council for legal assistance guaranteed by the state, with territorial offices;
- (iii) Informing citizens about the forms and conditions for getting legal assistance guaranteed by the state;
- (iv) Creating public attorney offices.

1.2. Modernizing and increasing efficiency of the judiciary

Rationale

An essential component of the state and its development is represented by the judiciary as a totality of structures that contribute to the enforcement of justice. Modernizing and increasing the efficiency of judiciary (development and implementation of reforms based on impartiality of the judiciary, improvement of performance and credibility of judges, increased access to legal services) constitute priority actions that need to be undertaken by the Republic of Moldova in order to reach these objectives.

Programs and measures

1.2.1. Strengthening the judicial system:

- (i) Implementing the Strategy for strengthening the judiciary by:
 - a) Strengthening the legislative framework regarding the judicial system to strengthen judges' independence and creating an efficient mechanism to monitor the enforcement of laws on judiciary strengthening;
 - b) Ensuring the transparency of justice-rendering by improving the dialogue between civil society and justice and ensuring the publicity of judgments and the access of media to the courts;
 - c) Establishing a mechanism for jurisprudence unification to improve the quality of justice rendering;
 - d) Strengthening the institutional capacity of the Superior Council of Magistrates;
 - e) Strengthening the National Justice Institute to accomplish the proper training of judges and other staff within the judicial system;
 - f) Increasing the efficiency and accountability of the judiciary by reducing the duration of legal proceedings and the workload, and by rationally using human resources;
 - g) Continuing the computerization of the judicial system by implementing the Concept of the judicial information system for 2007-2008;
 - h) Reforming justice financing by implementing a transparent mechanism of budget planning and control of the judicial system.

1.2.2. Strengthening the mechanisms for enforcement of judicial decisions:

- (i) Developing a mechanism to finance the spending for enforcement activities;
- (ii) Ensuring computer access of enforcement officers to necessary databases, in order to properly carry out their activity/ responsibilities;
- (iii) Actively involving and distributing responsibilities between creditors and debtors in the process of judicial decisions' enforcement.

1.2.3. Strengthening juvenile justice:

- (i) Appraising the necessary number of staff and premises to carry out judicial proceedings in the best conditions, where minors are involved either as victims or criminals;

- (ii) Improving the legislative framework in the area of minors' rights protection by developing proposals for uniform regulation aimed at streamlining proceedings and increasing the procedural guarantees granted to minors;
- (iii) Creating the infrastructure for the proper functioning of juvenile justice by a specialization of judges and other categories of staff within the judicial system and by creating a documentation and information center accessible to professionals in the area of juvenile justice.

1.3. Preventing and fighting corruption

Rationale

The different manifestations of corruption (excessive bureaucracy, protectionism, nepotism, excessive state controls and regulations, unfair competition, etc.) lead to negative social and economic consequences for the development of the state. Corruption is a multidimensional phenomenon that, in order to be eradicated, requires efforts supported by both public authorities and the entire society.

Activities of preventing and fighting corruption will be implemented through a complex approach, which will improve the regulatory and institutional framework, will increase the transparency of decisions taken by public institutions, and will develop intolerance to corruption within the society. These actions will complement the structural and institutional reforms aimed at reducing corruption opportunities in the future. Corruption prevention and combating measures will be primarily focused on areas perceived as mostly affected by corruption: police, judiciary, health services, political parties, legislative, business environment, educational system.

Programs and measures

1.3.1. Improving the legal framework in the area of fighting corruption in accordance with international standards and good practices:

- (i) Development and approval/adoption of regulatory acts necessary to efficiently implement the provisions of the international conventions in this area, to which the Republic of Moldova is a party (for example, the Criminal Convention regarding Corruption, the Civil Convention regarding Corruption);
- (ii) Continuation of the reform of the regulatory framework.

1.3.2. Strengthening the capacity to prevent and combat corruption:

- (i) Adequate technical endowment of the CCECC and Prosecutor's Office to investigate corruption cases;
- (ii) Increasing the salary level of civil servants in relation to duties fulfilled.

1.3.3. Ensuring transparency of the activity of public institutions, access to information, promotion of ethical standards:

- (i) Creation of web pages for all public authorities and their permanent updating;
- (ii) Approval/adoption of ethical codes for judges, medical staff, etc.;
- (iii) Ensuring fiscal transparency and annual publication of reports on the execution of budgets at the level of each agency and autonomous governmental authorities.

1.3.4. Active involvement of the civil society and private sector in prevention of corruption, creation of an atmosphere of non-tolerance for the corruption phenomenon:

- (i) Developing and adopting the anti-corruption information and communication strategy;
- (ii) Organizing periodic meetings between public authorities and civil society, collaboration on anti-corruption, also by participating in civil society representatives' initiatives;
- (iii) Developing advanced anticorruption practices.

1.3.5. Expanding international collaboration:

- (i) Implementation of GRECO recommendations, developed as part of the second evaluation round (report as of October 13, 2006);
- (ii) Development of an Action Plan to participate in the World Bank initiative in the area of corruption prevention and combating;
- (iii) Conclusion of cooperation agreements with other states regarding different aspects of combating corruption;
- (iv) Accomplishing the Action Plan regarding the implementation of the Threshold Program of the Republic of Moldova in the framework of the "Millennium Challenge" Corporation.

1.4. State border management

Rationale

One indispensable element and a major condition to ensure the security of any country is the supervision and control over the state border. For Moldova, this aspect of national security has acquired a special importance taking into account the international tendencies of proliferation of migration, trans-border organized crime, and international terrorism. Currently, the management of borders of Moldova is organized in accordance with the provisions of bilateral treaties and agreements with neighbouring countries and the internal legislation of the Republic of Moldova. The transition for the border guard troops to the Border Guard Service, which is the professional authority in the field of surveillance and control of the state border, may be considered as a first step in the adjustment of state border management to EU standards.

Programs and measures

1.4.1. Development of the state border management within all border sectors of the Republic of Moldova:

- (i) Harmonization of the national legislation with the *aquis communautaire*, and development and implementation of a national Strategy on integrated management of state borders;
- (ii) Continuation of cooperation with neighbouring countries to complete the process of demarcation of state borders;
- (iii) Development of the check-points' infrastructure and endowment with state-of-the-art technical equipment;
- (iv) Establishment of a professional training system for the human resources involved in border surveillance and control.

1.4.2. Intensifying trans-border cooperation between the Republic of Moldova and the EU members, as well as neighbouring countries:

- (i) Organization of joint controls at the Moldovan-Ukrainian state border crossing points;

- (ii) Development of regional cooperation between relevant law enforcement bodies (police, border guards, and customs).

Monitoring indicators:

Indicator	Source
Number of recourse to ECHR, including recourse that were communicated to the Government, including cases won by applicants.	Ministry of Justice Ministry of Justice
Number of recourse to ECHR lodged by people in detention	Ministry of Justice
Number of decisions issued by judges and not executed (cumulative)	Ministry of Justice
Number of recourse to courts (except for economic courts)	Ministry of Justice
Number of recourse for alternative procedures	Ministry of Justice
Corruption Perception Index	Transparency International
Level of confidence in police, % of interviewed persons who do not trust the police	Barometer of Public Opinion
Number of human trafficking crimes	Prosecutor's Office/Ministry of Interior
Number of reports on slight corporal injury	Ministry of Interior
Number of cases of domestic violence that lead to murder and severe corporal injury	Ministry of Interior

2. Settlement of the Transnistrian Conflict and Reintegration of the Country

Rationale

Solving the Transnistrian conflict on the basis of norms and principles of international law, OECD standards and fundamental approaches in the framework of the external settlement mechanisms stipulate the implementation of the territorial, social and political reintegration of the Republic of Moldova through the reestablishment of economic, legal and social areas, and it represents one of the main conditions for the sustainable development of the country, including in the context of European integration, security in the region, strengthening of democratic institutions, as well as economic and social stability.

The final settlement of the Transnistrian problem, representing one of the priority directions in the development of the Republic of Moldova, is a goal that consolidates the activity of public authorities of Moldova, and requests a maximal concentration of efforts of the entire civil society. While implementing the Strategy, it is important to address this problem in a broader context, with a larger involvement from the international community, and mainly the European Union, including through the European Neighbourhood Policy.

The final and sustainable settlement of the Transnistrian problem involves a focus on two areas:

1. *Political dimension:*

- (i) Development of the special juridical status of the Transnistrian region of the Republic of Moldova, by respecting the independence, sovereignty and territorial integration in the interaction with the international partners, in the framework of the existing mechanisms and on the basis of a consensus of the actors involved.
- (ii) Approval of the political solution in the negotiation process in the existing formats.

2. *Social-economic dimension:*

- (i) Reestablishment of the unique economic, legal and social areas, which envisages the concentration of efforts of all central specialized public authorities of the Republic of Moldova and coordination of their activity with the objective to promote a consistent government policy on the reintegration of the country.
- (ii) Development of complex integration policies (economic, social, educational, cultural, etc.) and extension of the programs and existing strategies regarding the involvement of citizens (in a broader sense – inhabitants) from the left bank of the Nistru river and guaranteeing respect for their rights, including social, economic, and cultural, etc.

Thus, the harmonious combination of these two components – of internal and external policy – constitutes the strategy in solving the Transnistrian conflict over medium term. This means that the strategy is based on a consistent and balanced policy of all the branches of state power. In this context, the successful implementation of the internal component and the consistent promotion of the external message in the bilateral and multilateral dialogue requires a consolidation of the positions of the political powers of the Republic of Moldova, with the objective to promote and defend the interests of Moldova, as well as ensure the continuity of the country's reintegration (over medium term). *The statement of the Parliament of the Republic of Moldova regarding the political partnership for the implementation of the objectives for European integration* and the unanimous approval of the

documents from June-July 2005 represent a fundamental decision and constitute the necessary tool for a nation-wide consensus.

Strengthening confidence and security, as well as social protection measures for the Transnistrian population are under the constant eye of the Government. The implementation of initiatives launched to this extent by the President of the Republic of Moldova will contribute to additionally building the foundation for the settlement of the conflict.

Support for the reintegration policy from the part of the civil society plays a key role. The extension of the existing dialogue with Non-Governmental Organisations (NGOs) constitutes one of the major priorities of the Government. The positive experience of cooperation between the governmental institutions and the Parliament of the Republic of Moldova with NGOs will be institutionalised in the framework of NDS implementation. Regarded from this perspective, the mid-term strategy for solving the Transnistrian conflict stipulates the conjunction of the efforts of the Executive and Legislative bodies to accomplish *the final solution of the conflict*.

The final political solution to the Transnistrian conflict will be developed and approved in a multilateral framework of negotiations by involving international parties and actors. The promotion of this solution is a complex process, which presumes a consensus of the actors involved regarding the future statute of the Transnistrian region as part of the Republic of Moldova and the delimitation of competences between the center and the region, as well as a set of guarantees: constitutional guarantees of the Transnistrian statute and legal, economic and social guarantees for the population of the region.

Also, one of the priorities is to create favourable conditions for the settlement of the Transnistrian conflict. Taking into consideration the favourable international conjuncture as a necessary condition, the authorities of the Republic of Moldova suggest the following three objectives, the realisation of which aims at covering *the final political solution*. *These objectives* are in accordance with the stipulations of the Constitution of the Republic of Moldova and are a component part of the current national legal and regulatory framework (Law of the Republic of Moldova No. 173-XVI from July 22, 2005 on basic provisions of the special legal status of settlements on the left bank of Nistru river (Transnistria), Decision of the Parliament of the Republic of Moldova No. 117-XVI from June 10, 2005):

Overarching goal of priority:

Establish favourable conditions for the regulation of the Transnistrian conflict and accomplish the territorial, political and social reintegration of the Republic of Moldova.

Objectives:

- 2.1. Democratisation and development of a civil society based on European values and international norms and standards**
- 2.2. Demilitarisation and provision of security**
- 2.3. Social-economic reintegration**

Programs and measures:

- 2.1. Democratisation and development of a civil society based on European values and international norms and standards**

Rationale

Democratisation and development of the civil society based on European values and international norms and standards must include a range of measures focused on the creation and development of democratic institutions and an integral civil society on both banks of the Nistru river, with the participation of the international community in this process. The actions undertaken by the authorities of the Republic of Moldova for the accomplishment of this objective are based on the stipulations of the Appeal of the Parliament of the Republic of Moldova on the democratisation criteria for the Transnistrian zone of the Republic of Moldova, approved by Parliamentary Resolution No. 117-XVI of June 10, 2005.

Programs and measures:

- (i) Removal of obstacles for the free activity of political parties of the Republic of Moldova in the Transnistrian region;
- (ii) Removal of obstacles for the free activity of national and local mass media in the Transnistrian region;
- (iii) Removal of obstacles for the free activity of NGOs and civil society development in the Transnistrian region.

2.2. Demilitarisation and provision of security

Rationale

Actions undertaken by the Republic of Moldova for the demilitarisation and provision of security, as well as the implementation of a range of confidence-building measures are based on the provisions of the Parliamentary Appeal on the principles and conditions of demilitarization of the Transnistrian zone, approved by Parliamentary Resolution No. 117-XVI of June 10, 2005.

Programs and measures:

- (i) Changing the actual mechanism on peace keeping in a multinational mission with an international mandate;
- (ii) Completing the withdrawal of the troops and ammunition of the Russian Federation from the territory of the Republic of Moldova, according to the decisions of the OECD Summit in Istanbul (1999);
- (iii) Dissolution of the paramilitary groups in the Transnistrian region and creation of military forces and a unified border-guard service on the territory of the Republic of Moldova;
- (iv) Undertaking confidence-building measures to maintain the stability, security and ensure the free movement of the citizens in the security zone and in the region.

2.3. Social-economic reintegration

Rationale

Social-economic reintegration relates to the reestablishment of the unique economic, financial, customs and social system. The progress made in this regard has to be strengthened in accordance with the bilateral and international agreements of the Republic of Moldova.

Programs and measures:

- (i) The implementation of the bilateral Moldovan-Ukrainian agreements and understandings regarding foreign trade and border security;
- (ii) Cooperation with the EU institutions, and mainly through the EU Mission of Assistance at the Moldovan-Ukrainian Border (EUBAM);
- (iii) Development of a flexible and efficient mechanism to offer social assistance according the current legislation for inhabitants of the Transnistrian region of the Republic of Moldova;
- (iv) Creation of favourable conditions for the economic-commercial cooperation between the two banks of the Nistru river and elimination of barriers for a free activity of the economic agents;
- (v) Development and implementation of common projects targeted towards the rehabilitation and development of the infrastructure with the support of foreign donors.

Monitoring indicators

Indicator	Source
Number of persons assisted through programs implemented by the public authorities of the Republic of Moldova	Ministry of Reintegration
Number of projects designed for the rehabilitation, upgrade and development of infrastructure in areas affected by the conflict	Ministry of Reintegration
Number of projects implemented or under implementation for the rehabilitation, upgrade and development of infrastructure in areas affected by the conflict	Ministry of Reintegration

3. Enhancing the Competitiveness of the National Economy

Analysis

Competitiveness of a country is its capacity to create and maintain institutional, economic and infrastructure conditions favourable for the establishment / attraction and development of some companies producing better-quality goods and services and/or at lower prices than external competitors. The competition capacity is demonstrated both on international and national markets, related to imported goods and services.

At present, the competitiveness of the Republic of Moldova is basically assured by low labour costs and some domestic raw materials, and is manifested in sectors with relatively low added value. This model of competitiveness is specific for a number of countries with less advanced economic development. At the same time, taking into account the increased domestic prices, external opening of the country, intense migration, and abundance of cheap labour force abroad, our comparative advantages determined by low costs are increasingly eroded, while the technologic gap compared to other countries is growing.

Currently, the Moldovan economy is characterized by a low level of competitiveness. In 2006, Moldova was ranked 86 among 125 in the international ranking of competitiveness, in conformity with the global competitiveness indicator calculated for the World Economic Forum²⁴. The low level of competitiveness of domestic output is confirmed by a continuous decrease of import- export coverage rate. Between 2000-2006, the volume of imports increased 4.6 times, while the volume of exports - 2.3 times only. Moreover, the narrow structure of exports and geographic concentration contribute to an increase of external vulnerability, along with risks and losses it implies for the real sector of economy. This particular thing happened in 2006, when due to external shocks the rate of economic growth, production outputs and exports dropped, and instability elements appeared at macro level.

In the context of EGPRSP efforts were made, aimed at supporting the development of the production sector of the country and contributing to strengthening the competitiveness of Moldovan businesses both on domestic and external markets. In general, improvements in the production sector during this period were modest. Industry showed robust growth at the beginning of the economic revival period (in 2000-2006 cumulative growth was 73%), however losing its pace lately. The performance of agriculture was unstable and poor: in the same period cumulative growth of agricultural output was 10% only. The services sector showed stable growth, while the balance of external trade with services became positive.

Regulatory and fiscal reform

Ambitious reforms initiated in recent years, aimed at improving the business environment to increase investments in economy (in particular, regulatory and fiscal reforms), have partially achieved their goals.

During 2000-2006, total investments in fixed capital fix were on average less than 16% of the GDP. The dynamics of investments is still encouraging, increasing from 11% in 2000 up to 24.7% in 2006. The services sector is an absolute leader in attracting investments into fixed capital, registering 71.2% (2006) as a total figure. In particular, most investments have been registered in communications and transportation, real estate and trade. At the same time, the agricultural sector is largely avoided by investors, having attracted less than 5% of total

²⁴ Global competitiveness indicator looks into nine groups of factors critical for enhancing productivity and competitiveness: institutions, infrastructure, macro-economy, health and primary education, market efficiency, technologic absorption capacity, business sophistication and innovation.

investors. Processing industry is more attractive, as it accounts for an average annual share of 15.3%, which has been decreasing lately.

Foreign direct investments (FDI), regarded as one of the main indicators confirming the success of policies and economic prospects of a country, have grown 3 times in the past six years (amounting for USD1.3 bil. in 2006), and in the first half of 2007 this indicator increased by USD205 million. As compared to reference countries, the rate of the FDI in the GDP is relatively high. It should be mentioned that FDI are important not as hard currency resources only, but as a combination of experience, knowledge, management practices, marketing innovations and technologic know-how, stimulating investments of domestic capital.²⁵

The first phase of the regulatory reform resulted in the implementation of a number of activities entailing: (a) simplification and enhanced transparency of the regulatory process through reducing a number of regulations governing business activity; (b) reducing the duration and costs of the registration procedure; (c) reducing the cost of authorization issuing procedures; (d) partial simplification and centralization of licensing procedure, (e) optimization of registration procedure and (f) reducing conflicts of interest between the inspection and testing roles of supervision agencies.

The reform's initial results are confirmed by the conclusions of the yearly survey „Costs of business activity regulation by the state”. According to the survey in between 2002-2007, the time needed to register an enterprise has reduced by 6 days, while the costs have shrunk to 50%. Also, the average number of licenses per company has reduced, and the time needed to issue them has reduced to 20 days, while the costs have halved. The procedures of issuing authorizations have become cheaper in terms of money and time, however, the level of unofficial payments to get them has increased. The survey points towards reduced costs for certification of imported products and customs clearance procedures, as well as length of import and export procedures.

Despite positive results described above, the Republic of Moldova failed to advance in the world rating (including the regional one) regarding business environment. Moldova is rated 92 in the World Bank's report „Costs of Doing Business 2008”, showing a loss of three position in rating, compared to the previous year. In the list of reference countries Moldova is rated 10 (of 13, namely: Ukraine, Romania, Albania, Bulgaria, Kyrgyz Republic, Macedonia, Estonia, Latvia, Lithuania, Slovak Republic, and Moldova). For our country the report indicates a high level of difficulty in business regulation in external trade, licensing, obtaining loans. Also, the report indicate a low level of investments protection indicator of 4.7 (on a scale from 0 to 10, where 10 is the highest level of protection). So, the results obtained in improving business environment have to be viewed through comparison with other countries performance, and an important conclusion is that Moldova does not make sufficient efforts in comparison with other countries competing for investments.

Since 2000, significant increase of budget revenues (in particular fiscal revenues), allowed the Government to review the possibility to ease the fiscal pressure in general, and for business environment in particular. To this effect, the rate of the corporate income tax was reduced from 28% in 2001 to 15% in 2006. In 2007, the Government came up with a new initiative of fiscal liberalization meaning introduction of a zero rate corporate income tax, except for the distributed income. Also, the capital legalization procedure for non-declared financial means, material and financial assets under the possession of natural persons and legal entities (residents of the Republic of Moldova both in and outside the country) started in

²⁵ Republic of Moldova: Analysis of economic growth constraints, 2007.

2007, as well as the fiscal amnesty reform, meaning the cancellation of arrears on tax payments as of January 1, 2007.

The biggest share in direct taxes is formed by social and health insurance contributions, the lion's part of which is paid by employers. The share of social insurance contributions has been redistributed between the employer and employee by reducing the share of the first from 31% in 2001 to 25% in 2007. At the same time, starting in 2004, mandatory health insurance was introduced, amounting in 2007 to 5% equally distributed between the employer and employee.

Recent comparative assessments indicate a medium level of taxation in the Republic of Moldova in comparison with other countries in the region. This finding is confirmed by the results of the „Costs of Doing Business 2008” study, where Moldova is rated in the middle among countries under comparison. In 2006 the profit taxation rate was 44%. At the same time, in Moldova labour is taxed relatively high. Social and health insurance contributions, combined with individual income tax, represent a rather high tax on earned income. This is an impediment for job creation, in particular, in the formal sector.

In general, despite the implemented reforms, fiscal pressure determined as fiscal revenues and GDP ratio was continuously increasing. In 2006 fiscal pressure represented 33.4% as compared to 24.7% in 2000. This phenomenon may lead to discouraging investments in economy. Fiscal pressure increase may be stopped by comprehensive efforts focused on reduction of the public sector size, fiscal discipline improvement, tax base expansion and reduction of the informal sector.

Quality infrastructure

Growth of domestic economy competitiveness implies compliance with increasingly growing international markets requirements in terms of quality and performance of products, while conformity with international standards became a de facto condition for market access. To this effect, improving the metrology, standardization, testing and quality (MSTQ) framework is a necessary step towards gaining access on international markets and increasing competitiveness of domestic products.

Currently the national MSTQ system operates with outdated equipment and standards, inadequate for market economy practices and is not fully acknowledged by European organizations, what causes serious problems of compliance with international trade requirements for Moldovan products. Non-acknowledgement of the system is also explained by lack of explicit separation of functions and responsibilities and conflict of interest in standardization, national measuring, verification and accreditation standards between the existent institutions.

The process of MSTQ system reform in Moldova, including transition to a system based on voluntary standards, started in 2001, following Moldova's accession to the WTO. To this effect, the Quality Infrastructure Concept was developed and approved, targeted towards four major objectives: (a) improving the existent MSTQ institutions up to the international level (including international acknowledgement); (b) improving existent services and introducing new MSTQ services (based on Moldovan producers demand); (c) promoting use of MSTQ services by companies aiming at enhancing quality and conformity with international standards; and (d) capacity building for product quality control and consumer protection in conformity with European practices. Also, the relevant legal framework underwent essential improvements. These actions, however, are not sufficient to create a functional system. They have to be accompanied by the reorganization of the institutional framework, investments in equipment and human resources, as well as promoting demand

for these services. Though some exporting Moldovan companies started to implement quality systems, the number of such companies so far is relatively small.

Export promotion

The low level of Moldovan products' competitiveness reflected not only in reduced export volumes, but also in poor diversification by products and their destination countries. From the former economic system Moldova inherited an excessive dependence on the CIS markets. Though this dependence has reduced to a certain extent lately (in 2006, approximately 40% of Moldovan exports were absorbed by the CIS markets, of which 32% by the Russian market, compared to 59% and 45%, respectively, in 2000), still, it is sufficiently strong and implies serious risks. Cessation of Moldovan wines and food product imports on the Russian market in 2006 had a significant impact on the domestic economy. Wine and alcoholic drinks exports dropped from 11% of GDP in 2005 to 6% in 2006, while GDP growth has reduced by approximately 3 p.p.²⁶.

The objective of wider diversification of exports implies maintenance of rather big share of Moldovan products on Eastern markets and increase of this share on Western markets. Penetration into new markets, in particular European, is a complicated and lengthy process. In the past seven years the share of Moldovan exports in UE-15 countries has raised by a little as 4 p.p., making 25.6% of the total exports in 2006. The share of Moldovan exports in UE-25 group was 35%. To this effect, negotiation of more advantageous external trade regimes and participation in regional cooperation initiatives is an important contribution from the part of the state towards supporting exporters' efforts to diversify export destinations and enhance competitiveness.

Starting in 2006, Moldova has been included in the list of countries benefiting from extended commercial preferences („GSP Plus”). The new system allows customs duties free access on the EU market for 7,200 products, of 11,000 existent in the Combined Nomenclature of Commodities. However, this does not include agricultural products strategic for our country, such as sugar, meat, alcoholic drinks, etc. Further, actions are being taken aimed at obtaining a new instrument, Autonomous Trade Preferences (ATP), that will considerably encourage bilateral commercial exchanges and will allow to maintain existent economic relations with recently EU accessed countries - Romania and Bulgaria, under preferential regime. Also, in 2006 the Republic of Moldova, along with other nine European countries, signed a new free trade agreement for Central Europe (CEFTA). CEFTA 2006 Agreement provides for an extended degree of liberalization, in particular for trade with manufactured goods, transparent mechanisms of applying trade protection measures and establishing its own trade disputes resolution mechanism, or use of the WTO's instrument. The membership in CEFTA opens access to EU's structural funds to the Republic of Moldova.

Small and Medium Enterprises

The role of Small and Medium Enterprises (SME) sector for economy is an important one due to multidimensional impact it has both on economic growth, labour force employment, and poverty reduction. In the Republic of Moldova SME sector represents circa 98% of the total number of enterprises, employing 59% of the total number of employees and producing 46% of total revenues per economy. The major part of SME (circa 66%) operate in Chisinau municipality, accomplishing 72% of all SME sector turnover. SME are preponderantly involved in trade (41.6% of the total number of SME). However, the performance of this segment is still poor – in 2006, of the total number of SME only 40% gained profit, 48%

²⁶ Increase of prices for natural gas imported from Russian Federation also contributed to decrease of the GDP growth rate.

suffered losses, and the rest scored at a break even point or declared lack of economic activity.

The Government identified the following major problems faced by the SME in Moldova: reduced access to financial resources, in particular, to long term preferential credits, lack of collateral needed to contract loans, underdeveloped business culture, etc. By approving the SME development support Strategy for 2006-2008, the Government committed to create appropriate conditions for this sector growth, enhancing competitiveness and increasing its contribution to the country's sustainable economic development. More concretely, the Strategy sets forth a number of ambitious tasks: (i) development of a legislative, regulatory and institutional framework favourable to SME development; (ii) facilitation of SME's access to funds by creating necessary conditions for micro-financing system development and launching new financial technologies and instruments; (iii) development of business culture through a general training and vocational training system; (iv) development of modern advisory services; (v) stimulation of innovation culture development aimed towards production process optimization, marketing, enhancing goods and services quality, developing new goods and services; (vi) intensification of consultations and public-private partnership through creation of conditions favourable to SME representation system development and increasing the role of consultations with the business community in the decision making process.

Improving state property administration

In Moldova enterprises with the state's participation in equity still hold an important share in certain sectors of economy, even though in absolute values their number is small. For example, in 2004 these enterprises accounted for 40% of total sales of utilities sector and 10% of total sales in industry.²⁷ Also, they employed about 14% of labour force in industry and 11% in constructions. Recent analysis of performance of enterprises with the state's participation show a lower level of profitability in comparison with private enterprises. In particular, net profit rate is the smallest at enterprises where the state participates with less than 33% of stock. For these enterprises, the state can not influence the enterprise administrative process. At the same time, the state holding a certain share of stock is often an element of mistrust withholding investors from investing in these enterprises. Evolution of financial indicators of enterprises where the state's share is between 33 and 51% also shows inefficient management. Often, administration of these enterprises by authorized bodies is not sufficiently thorough. A better performance is demonstrated by a group of enterprises where the state holds more than 51% of stock. At the same time, the situation for this group is to a great extent determined by Moldtelecom's performance that owns more than 20% of stock and generates circa 20% of the net annual profit²⁸.

Providing conditions for efficient use of all assets becomes a primary task in case of countries with limited resources, like Moldova. To this effect, the Government has initiated a number of actions targeted towards improving public property management. The inventory of the state's assets has been made, and existent management and privatization instruments reviewed. This analysis served as basis for the approval of the Law on state property management and denationalization No. 121-XVI of May 4, 2007, with the following priorities: consolidation of public property accounting and optimization of the public property size, structure and administration methods, in particular through introducing corporate management principles. Imposing the requirement to calculate dividends will contribute to improving the public finance management system and identification of potential resources for

²⁷ Moldova: Faster economic growth opportunities, World Bank, 2005

²⁸ State owned enterprises assessment report, MET 2005

public investments allocated based on priorities. The new law identifies a list of assets that can not be subjected to privatization, all other assets shall be set out for sale.

Infrastructure development

Transport sector

Deficiencies in public infrastructure represent a significant impediment for enhancement of Moldovan economy's competitiveness. Scarce financing of the sector during the entire transition period resulted in significant worsening of roads network, water supply and sewerage systems, heating systems. Despite the requirement to extend and develop infrastructure, public investments continued to be low lately, accounting for less than 3% of the GDP.

Under-developed road infrastructure has an important impact on mobility of goods and people, in particular in rural areas. This also represents an impediment for trade, imposing additional costs for exporters and importers. Currently, transport infrastructure in the Republic of Moldova is much below regional comparisons. Though roads density is approximately at the level of the regional average, the density of paved roads is much under this level. Almost 75% of national and more than 79% of local roads are classified as bad. Approximately 400 km of paved roads have lost their coating and turned into unpaved or country roads. The railroad transport, also playing an important role, is extended, but obsolete.

Stopping of road infrastructure deterioration process and its development implies the need for major long term investments. Reduced availability of resources poses the need to review mechanisms of allocation and use of funds for purposes of existent roads maintenance and construction of new ones. In 2006, the Government initiated the development of the National Transport Program for 2008-2017, comprising the transport sector strategy, as well as a prioritized investments and expenditures plan for the transport sector. Also, the Strategy provides for the creation of an institutional and financial system for the sustainable management and maintenance of road network.

A first result of recent activities in this sector is the signing, at the end of 2006, of a joint financing agreement between the European Investments Bank, the World Bank and the EBRD for the road routes of Moldovan segment of the Pan-European Corridor IX rehabilitation and modernization project: North-South connection (Criva-Chisinau-Comrat) and East-Vest (Chisinau towards Romanian border) with a total value of 60 mil. Euro, providing for the rehabilitation of 500 km of the above-mentioned roads. Also, the Republic of Moldova is in the process of preparing a road rehabilitation project proposal, financing of which will be sought from the Millennium Challenge Corporation.

Energy sector

Rapid increase of world prices for energy, excessive dependence on natural gas imported from one supplier, reduced level of renewable sources use, high rate of losses in electric, energy and thermal power sector, low level of efficiency and poor condition of most energy infrastructure facilities are the factors contributing to reduced competitiveness of Moldovan economy.

Structural reforms implemented in previous years resulted in improved financial situation of the sector and partial rehabilitation of energy infrastructure. Following independence, the gas and electric power distribution sectors have been partially privatized. The state has maintained full ownership in the electric power generation sector, distribution of thermal power, and is partially present in the distribution of electricity and gas. Due to privatization, the energy sector benefited from a larger volume of private investments than other sectors of

infrastructure. Also, important public investments were made in the gas distribution sector (USD100 million), electric power transportation and distribution, heating supply sector.

Despite these achievements, the sector is still has to deal with an advanced level of moral and physical obsolescence of energy facilities and equipment: about 60% of facilities are being used for more than 25 years, and 40% - more than 30 years²⁹. Very low energy efficiency (almost 3 times lower than in European countries) contribute to substantial growth of energy resource costs in the production process. To improve the situation, it is necessary to increase investments through increased public expenditures, promote public-private partnerships, improve management of state-owned enterprises.

Under a total dependence on imported energy sources, diversification of gas and electric energy suppliers, as a measure ensuring energy security, is the major task of the Government. To this effect, Moldova's participation in the South-European energy market is an opportunity. In 2006, the Energy Strategy up to 2020 was approved, providing for the harmonization of the Moldovan legislation and energy policies with those of the European Union. To ensure Moldova's participation in the South-East Europe circuit, electricity and gas transport technical capacity development projects were developed. Implementation of these projects will lead to increased energy supply security in the region.

Rationale

Enhancement of domestic economy competitiveness implies assurance of gradual transition from cost-factor determined competitiveness to a competitiveness determined by efficiency- and quality-factor. Efficiency and quality based competitiveness has to become the main source of sustainable economic development and growth and improvement of life standards for Moldovan population. Enhancing competitiveness of domestic products will allow to increase exports and, as a consequence will reduce external vulnerability, the risk of macroeconomic instability and ultimately, confer sustainability to economic growth.

This competitive transition implies essential improvement of business environment, SME promotion, more efficient use of public assets, productivity growth at company level, modernization of physical infrastructure and investments in human capital. In the short run, this will contribute to the consolidation of technologic and innovation absorption capacities. In the long term, it will lead to consolidation of own technological and innovation development capacities.

Overarching goal of priority

Enhancing competitiveness on internal and external markets through ensuring the country's transition from costs based competitiveness on efficiency and quality-based competitiveness.

Objectives

- 3.1. Improved business environment to intensify investment activity in economy**
- 3.2. SME promotion to offer new opportunities and ensure a better adaptability of the economic system to the current exigencies of the market economy**
- 3.3. Improved efficiency of enterprises to consolidate competitiveness endogenous factors from the core of national economy**
- 3.4. Research and innovation development**

²⁹ Energy Strategy up to 2020, approved by Government Resolution No. 958 of August 21, 2007.

3.5. Physical infrastructure development to reduce production costs

Programs and measures

3.1. Improving the business environment

Rationale

Currently, the Moldovan economy is characterized by a relatively low labour productivity, de-capitalization, focusing on sectors having low added value and slow job creation pace. To overcome this situation, concrete actions in more directions are needed, still the main strategic direction at policy level is improvement of business environment. Being less attractive in terms of natural resources and size of internal market, the Republic of Moldova may attract foreign investments primarily through some more advantageous institutional factors and policies versus other countries. The primary action in this regard is speeding up the regulatory framework reform, which will significantly contribute to an increase of local and foreign investments, to growth and rehabilitation of the economy's stock of capital.

Programs and measures

3.1.1. Continuation and speeding up of the business regulatory framework reform:

- (i) Simplification and further optimization of existent regulations in initiation, running and liquidation of a business;
- (ii) Explore the opportunity to create „one stop” shops in the activity of all public authorities and implementation where justified;
- (iii) Reduction of fiscal burden through further optimization of tax system (particularly, optimization of social taxes), reduction of the public sector size in the business environment and improving fiscal administration;
- (iv) Creation and promoting national electronic payments system, to allow payment of taxes and fees, as well as for goods and services by electronic means;
- (v) Carrying out of the cost-benefit analysis (analysis of the regulatory impact) prior to introduction of additional regulations;
- (vi) Simplification of reporting procedure, including through introduction of on-line reporting;
- (vii) Development and implementation of simplified accounting methods for small and medium commercial entities.

3.1.2. Improving the quality infrastructure:

- (i) Speeding up the process of adjusting the MSTQ system to the European one;
- (ii) Consolidation of institutional capacities in standardization, accreditation, conformity assurance, metrology and market supervision, and integration of relevant institutions in the European structures (EA, CEN, CENELEC and ETSI), as well as creation of conditions for the establishment of the single electronic shop for international trade documents and e-trade;
- (iii) Identification of needs for support in modernization and re-equipment of laboratories for product quality verification;
- (iv) Re-equipping and preparing product testing laboratories for their correspondence with reference European and international standard requirements;
- (v) Support to the National Accreditation Body to sign recognition agreements with the European Cooperation for Accreditation in order to recognize the results of conformity evaluation at European level;

- (vi) Speeding up the process of developing technical regulations for products based on EU directives and regulations;
- (vii) Develop and modernize the national basis of benchmarks compatible with European Union requirements;
- (viii) Develop the consumer protection mechanism and enhance institutional capacity to apply it.

3.1.3. Extension of goods and services export, in particular on EU markets:

- (i) Simplification and further optimization of customs and administrative procedures aimed at reducing the cost and time needed to carry out import-export operations;
- (ii) Development of factoring and other financial instruments to intensify export;
- (iii) Intensification of commercial relations under regional cooperation initiatives (ex. South-East Europe Stability Pact, CEFTA, GUAM, CEMN, etc.), and resuming commercial relations with traditional partners, as well as creation of conditions for the establishment of the single electronic shop for international trade documents and e-trade;
- (iv) Full use of opportunities offered by the GSP+ system, Autonomous Trade Preferences and further, negotiation of an Asymmetric Trade agreement with the EU;
- (v) Strengthening of the legislative and regulatory framework and of specific regulations in informational and communication technologies, aiming at promoting economy and e-trade.

3.1.4. Investments attraction, in particular direct foreign investments:

- (i) Intensification of bilateral activities and direct negotiations for attraction of big companies subsidiaries (strategic investors) in Moldovan economy;
- (ii) Training of the „first line” staff (customs service, border guards, immigration service, etc.) in relations with customers;
- (iii) Promoting investment opportunities by assuring investors’ access to free economic zones, industrial and innovation parks, etc.;
- (iv) Expanding the spectrum of investment facilities that could form investment funds portfolio;
- (v) Adopting the legislative base and encouraging formation of public-private partnerships for investment projects financing, in particular in public utilities area;
- (vi) Drafting a national strategy for electronic business development (eBusiness).

3.1.5. Observance of fair competition principles:

- (i) Development of a fair competition of state support, types of state support (subsidies, subventions, fiscal facilities, etc.) and approval of clear rules of state support policy, limited to evident cases of market deficiencies;
- (ii) Development of a new law on competition in accordance with national norms.

3.1.6. Reform and stimulation of financial market development:

- (i) Application of commonly acceptable principles related to access of foreign banking and non-banking financial institutions which comply with “appropriate and adequate” tests on the financial market of the Republic of Moldova;
- (ii) Reduction of intermediation costs by attracting strategic foreign investments in the banking sector;

- (iii) Adjusting internal legislation on financial market to specialized directives of the European Union and international standards;
- (iv) Building capacity of the National Commission on Financial Market to regulate the entire segment of non-banking financial services, including insurance;
- (v) Ensuring the operation of the financial market by improving regulation of creation, operation and liquidation of investment institutions;
- (vi) Improving capital market infrastructure by stimulation of new investment institution creation, such as: specialized mutual investment funds, non-state pension funds, innovation and venture funds, underwriting companies, financial consultancy organizations, etc.

3.2. Promotion of SMEs

Rationale

Small and medium enterprises constitute an important element in assuring a sustainable economic growth and generation of new jobs, one of the economy viability signs being further diversification and expansion of the sector. The history of SME development in the Republic of Moldova indicates existence of a set of factors hampering adequate development of SME, such as reduced access of starts up to funding sources, underdeveloped business culture and harsh competition on markets in Europe. In this context, the overall objective of this component of the strategy is strengthening of the existent SME' competitiveness, and stimulation of their number increase.

Programs and measures

3.2.1. Facilitating SME access to financial resources:

- (i) Developing a system of credit guarantees for SMEs;
- (ii) Risk capital system development;
- (iii) Encouraging long-term lending schemes for small and medium enterprises, including attraction of credit lines from international financial institutions.

3.2.2. Developing business support infrastructure and fostering entrepreneurial culture:

- (i) Developing the institutional capacities of the Organization for SME Development in regions;
- (ii) Giving informational, consultative, and financial support in starting up a business, in particular for such categories of population as women and youth;
- (iii) Developing the business-consulting network by means of training business-consulting service providers and stimulating the demand for consultancy;
- (iv) Creating and developing business incubators;
- (v) Forming and developing entrepreneurial skills, particularly within secondary and professional education and improving the mechanism for life-long learning.

3.2.3. Building the capacity of SMEs to face competition on the internal and European market:

- (i) Stimulating SMEs to implement international standards for quality management and safety control;
- (ii) Ensuring the transparent access of SMEs to public procurement;
- (iii) Evaluating and comparing the international competitiveness of the Republic of Moldova, including of SMEs, on the basis of a rigorous set of quantitative and qualitative indicators;

- (iv) Encouraging training of SMEs managers in export operations, including through international transfer of knowledge and experience;
- (v) Stimulating the development of clusters.

3.2.4. Strengthening the public-private dialogue:

- (i) Establishing a permanent dialogue between the government and the national associations of entrepreneurs and SMEs;
- (ii) Actively involving SME sector in discussion of regulatory framework under the umbrella of Regulatory Impact Assessment;
- (iii) Identifying, jointly with the private sector, methods and schemes to stimulate the contracting and sub-contracting of SMEs from strategic sectors with a high growth potential by large enterprises.

3.3. Increase enterprise efficiency

Rationale

Efficient companies, capable to resist competition from foreign competitors, both on internal, and external markets, form the core of a competitive economy. The main source of competitiveness is labour productivity, which in its turn depends on a series of factors, the main being: 1) qualification and health of labour force; 2) managerial practices; and 3) absorption capacity, technologic and/or innovation development both at the company, and society level. Special emphasis will be placed on increasing the efficiency of public property use through the continuation of economy's public sector restructuring process, including through privatization of inefficient enterprises.

Programs and measures

3.2.5. Improving employees qualifications and labour conditions:

- (i) Curricula modernization and provision of modern equipment for practical training under vocational and higher education, primarily in technical and technological specialties;
- (ii) Improving labour conditions and safety of employees;
- (iii) Encouraging better employer-employee relations and stimulating higher corporate social responsibility.

3.2.6. Improving managerial practices:

- (i) Promoting quality management principles and stimulation of quality management implementation and certification systems process at the company level, in conformity with requirements of international standards ISO series 9000;
- (ii) Training of staff of local enterprises in the field of quality and productivity management systems (ISO, et al) based on best practices;
- (iii) Development of an operational management system based on best practices in the field quality and productivity management and its implementation in local enterprises;
- (iv) Increasing managerial accountability to stockholders, including the minority stockholders, and partners;
- (v) Promoting and large scale implementation of the modern business culture, including corporate social responsibility principles in business activity.

3.2.7. Improving management of state assets:

- (i) Implementing corporate administration principles at state-owned enterprises;
- (ii) Continuation of the economy's public sector restructuring process, including through privatization of inefficient public companies.

3.4. Research and innovation development

Rationale

Sustainable economic development based on knowledge and innovation can be successful only if supported scientifically in accomplishing national priorities, which, in their turn, imply provision of favourable conditions for expanding scientific research needed to cover economy's needs for specific research, increasing scientific level and efficiency. Because innovation is an underlying factor in assuring competitiveness at any level: enterprise, sector, region, country, building an innovation and technologic transfer infrastructure becomes a must of the national social-economic development. One of the main forms of promoting state policy in science and innovation are the state programs, to be selected and financed on a public competitive basis, based on expert opinion provided by independent experts.

Programs and measures

3.2.8. Capacity building in technologic innovation and modernization:

- (i) Development and promotion of efficient mechanisms of advanced technologies' absorption;
- (ii) Optimization of science and innovation by creating scientific clusters, scientific platforms and focusing the intellectual and technical-experimental potential to achieve priorities;
- (iii) Strengthening of scientific institutions' resource basis;
- (iv) Strengthening of the national system of scientific research by stimulating participation of research and innovation organizations in research and development activities and integration in the main European and international research programs (FP7, EUREKA, COST, GEANT, CRDF, STCU);
- (v) Promoting research and innovation through scientific-technological parks and innovation incubators and implementing national and international scientific and technologic research results in economic activity;
- (vi) Introducing innovation indicators in the national statistic system;
- (vii) Promoting access to financial resources in technologically intensive sectors, in particular through alternative financial instruments („angels investors”, „seminal capital”, micro-credits, etc.);
- (viii) Stabilization and development of innovative scientific and human managerial potential through developing legal and economic mechanisms and increasing motivation of researchers and innovators, depending on the progress made in the achievement of national priorities;
- (ix) Support to and establishment of local academic networks and profesional associations in implementing local and regional ICT research;
- (x) Establishment of an open national database containing data about research institutions and researches.

3.5. Physical infrastructure development

3.5.1 Transport System

Rationale

Existence of a transport structure is crucial for economic growth and free and rapid circulation of goods and people. The liberalized trade regime may be of little value for economic development if access infrastructure is lacking. Sub-developed transport infrastructure considerably reduces international competitiveness of companies and the respective country's attractiveness for potential investors. In order to effectively participate in international trade, Moldovan companies need a safe and modern infrastructure, integrated in the Pan-European circuit, that would provide them sure and competitive advantages (cost and time) in carrying out raw materials and finished products export/import operations. In order to use the geographical positions advantages, it is necessary to modernize the entire transport infrastructure of the Republic of Moldova.

Programs and measures

3.2.8.1. Developing and maintaining a modern automotive system, which is safe and connected to the pan-European circuit:

- (i) Stopping of deterioration and gradual rehabilitation of the existent roads network;
- (ii) Development of a viable and stable roads maintenance financing mechanism;
- (iii) Construction of new roads compliant to European quality standards;
- (iv) Introducing axis weight control system to prevent further degradation of roads;
- (v) Efficient connection of the main automobile roads in the Republic of Moldova to the European and regional economic partners networks (Romania and Ukraine);
- (vi) Implementing measures to ensure enhanced safety of existent and newly constructed automobile roads aiming at reducing the number of road accidents;
- (vii) Adopting the necessary legislative base for and establishing public-private partnerships for transport infrastructure development;
- (viii) Assessment of road transport impact on the environment and lessening its negative ecologic effects;
- (ix) Efficient combating of corruption in state road regulation bodies.

3.2.8.2. Modernization of the railroad transport system:

- (i) Renovation of the existent railroads of major importance;
- (ii) Consideration of the opportunity of building segments of roads with European gauge, to ensure facilitated access of Moldovan exports on Romanian market;
- (iii) Modernization of the rolling stock of passenger and freight aiming at increasing quality, safety and speed of services provided;
- (iv) Assuring effective integration in the European railroad system;
- (v) Transformation of the national railroad system into a regional hub by offering an extended variety of connections and regional transit.

3.2.8.3. Putting in use benefits provided by construction of Giurgiulesti port

3.2.8.4. Increasing safety and quality of services offered to passengers at Chisinau Airport (compliance with ICAO requirements and other international standards)

3.2.8.5. Increasing airport capacity for the cargo segment by modernization and transformation of one/some existent airports into a logistical center

3.5.2 Energy system

Rationale

Recent years have been marked by global increase of prices for energy resources, making access to these resources more difficult for countries in general and for companies in particular. Given the absence of own energy resources, the authorities' mission is to ensure reliable provision of energy at accessible prices to consumers in the Republic of Moldova. To remain/become competitive, the companies in the Republic of Moldova need stability in provision of energy and predictable prices in the short run. At the same time the Republic of Moldova needs to diversify suppliers – the goal that can be achieved through participation in a series of regional energy projects and through a more active cooperation with the European Union. Substantial increase of prices for energy resources implies a higher degree of implementing energy conservation technologies and renewable energy sources. These in their turn, need attraction of new energy conservation technologies and increased investments in research and innovation in this area.

Programs and measures

- 3.2.8.1. Construction of new electric interconnection lines of high voltage with neighbouring countries to ensure energetic safety of the state and increasing electric energy transiting capacity (construction of LEA-400kV Balti-Suceava, LEA-330kV Balti-Novodnestrovk, LEA-110kV Falciu-Gotesti);
- 3.2.8.2. Conducting a cost-benefit analysis for increasing own electric power production capacities (reconstruction and modernization of CET-2, Chisinau municipality, increasing its capacity au to 440 MW, CET-1 up to 90 MW and CET-Nord up to 100 MW);
- 3.2.8.3. Reconstruction and modernization of electric power transport and distribution, to ensure reduction of losses, non-interrupted provision of EDN-s and final consumers with electric energy;
- 3.2.8.4. Increasing and fully using the existent natural gas transiting capacity;
- 3.2.8.5. Integration of the national electricity system into the European one (UCTE);
- 3.2.8.6. Development /full use of own renewable energy resources;
- 3.2.8.7. Attraction of investments for implementation of energy conservation technologies;
- 3.2.8.8. Modernization of thermal power transport and distribution infrastructure;
- 3.2.8.9. Assessment of the economic and social impact of increased prices for imported energy resources and, if needed, development of efficient import and consumption subsidizing mechanisms for socially-vulnerable population, in agreement with international financial institutions;
- 3.2.8.10. Extension of gas networks and developing possibilities for interconnection of the republican gas supply system (construction of he nationally important gas pipeline Balti-Ungheni with ramifications towards Falesti, Singerei and Telenesti rayons).

Monitoring indicators

Indicator

Gross added value, mil. lei, current prices
*agriculture, hunting and forestry; fishing
industry
services*

Population employed in economy, thousands persons
*agriculture, hunting and forestry; fishing
industry
services*

Export of goods, related to GDP,%
Share of exports in total amount: %

Source

National Bureau of Statistics

National Bureau of Statistics

National Bank of Moldova
National Bureau of Statistics

CIS countries

EU countries

other countries

Agricultural and food products export as share in total volume of export, %	National Bureau of Statistics
Direct Foreign Investments (net), USD mil.	National Bureau of Statistics
Direct Foreign Investments per capita (stock), USD	National Bureau of Statistics
Investments in fixed capital related to GDP, %	National Bureau of Statistics
Ratio of the number of revealed product non-conformities in the total number of controls	Standardization and Metrology Service
Number of approved national standards, identical to international and European standards, annual	Standardization and Metrology Service
Number of technical regulations developed based on EU Directives, annual	Standardization and Metrology Service
Number of enterprises that were granted ISO 9000 and ISO 22000 certificates, annual	Standardization and Metrology Service
Loans provided by commercial banks related to GDP, %	National Bank of Moldova
Share of bad credits in the total bank credits provided by commercial banks of the Republic of Moldova, %	National Bank of Moldova
Current real exchange rate of the national currency, % (Dec. 2000 = 100%)	National Bank of Moldova
Interest rate for loans in lei (annual average, %)	National Bank of Moldova
Difference between loans interest rate and deposits interest rate in MDL (annual average), %	National Bank of Moldova
Share of life insurance premiums in GDP, %	National Commission for Financial Market
Credits portfolio of micro-crediting companies related to GDP, %	National Commission for Financial Market
Credits portfolio of credit and savings associations related to GDP, %	National Commission for Financial Market
Share of expenditures for research and development in GDP, %	Ministry of Finance
Share of expenditures for scientific applied research carried out by the ASM in total expenditures for research and innovation, %	Academy of Science of the Republic of Moldova
Funds invested by companies in implementation of domestic innovations in real sector of economy	Academy of Science of the Republic of Moldova
Patents total/implemented	Academy of Science of the Republic of Moldova
Share of advanced technologies export in total exports, %	World Bank GDI
Length of roads, km	Ministry of Transport and Roads
– <i>Reconstructed</i>	
– <i>Constructed</i>	
Energy resources per capita, thousand kg conventional units	National Bureau of Statistics
Consumption of energy as a share of GDP, kg conventional units for 1 MDL	National Bureau of Statistics
Share of losses in electric networks in consumption of electric energy, %	National Bureau of Statistics
Volume of domestic electric energy related to total	National Bureau of Statistics