



Moldova Country Strategy

2023-2028

Approved by the Board of Directors on 23 February 2023



European Bank
for Reconstruction and Development

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European Bank
for Reconstruction and Development

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| Annex 1 – Political Assessment | 21 | EE | Energy Efficiency | PE | Private Equity |
| | | EFSD+ | The European Fund for Sustainable Development Plus | PFI | Private Financial Institution |
| | | EIA | Environmental Impact Assessment | PPP | Private-Public Partnership |
| | | EIB | European Investment Bank | PR | Performance Requirement |
| | | ENTSO-E | European Network of Transmission System Operators for Electricity | PSP | Private Sector Participation |
| | | ENTSO-G | European Network of Transmission System Operators for Gas | PTI | Portfolio Transition Impact |
| | | EPC | Energy Performance Contract | RLF | Resilience and Livelihoods Framework |
| | | ETI | Estimated Transition Impact | RST | Reform Support Teams |
| | | EU | European Union | SDD | Sex-Disaggregated Data |
| | | FDI | Foreign Direct Investment | SSF | EBRD Shareholder Special Fund |
| | | FI | Financial Institution | SIF | Sustainable Infrastructure Fund |
| | | GCAP | Green Cities Action Plan | SME | Small and Medium Enterprise |
| | | GCF | Green Climate Fund | SOE | State-Owned Enterprise |
| | | GDP | Gross Domestic Product | TC | Technical Cooperation |
| | | GEFF | Green Economy Financing Facility | TEN-T | Trans-European Transport Network |
| | | GET | Green Economy Transition | TFP | Trade Facilitation Programme |
| | | GIFP | Giurgulesti International Free Port | TMT | Telecommunications, Media and Technology |
| | | HIPCA | High Impact Partnership for Climate Action | TPES | Total primary energy supply |
| | | HR | Human Resources | UN | United Nations |
| | | ICA | Industry, Commerce and Agribusiness | USAID | United States Agency for International Development |
| | | ICT | Information and Communication Technologies | VB | Victoriabank |
| | | IEA | International Energy Agency | WDI | World Development Indicators |
| | | IFC | International Finance Corporation | WEF | World Economic Forum |
| | | | | WiB | Women in Business |
| | | | | YIB | Youth in Business |

Since the adoption of the previous Country Strategy, Moldova's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank have notably strengthened following a political change in 2020-2021. The new reform-oriented authorities have taken steps to strengthen democracy and address the country's long-standing vulnerabilities, in particular in the field of justice, rule of law and the fight against corruption. At the same time, Moldova's reform ambitions require enhancing the capacity of public administration, especially in view of the magnitude of the challenges it faces.

Moldova has a small economy, which for years has been constrained by serious structural weaknesses, including poor governance, limited institutional capacity and an uneven business environment. Real incomes per capita lag other countries in the region and emigration remains high, particularly among youth. With limited FDI and investment, growth has been primarily driven by remittances fuelling private consumption, with low value added products predominant among modest export volumes. The European Union is Moldova's main trading partner, accounting for two-thirds of exports, which have increased significantly in the past twenty years, particularly following the signing of the Association Agreement in 2014 and Deep and Comprehensive Free Trade Area (DCFTA) in 2016. Nonetheless trade to GDP remains unusually low for a small country. Overall, GDP growth remains volatile, with the economy rebounding in 2021 after a major recession in 2020 caused by the COVID-19 pandemic.

The current government has embarked upon an ambitious reform programme, driven by Moldova's European aspirations and aimed at overcoming longstanding vulnerabilities. Important steps have been taken in particular to combat corruption and strengthen the rule of law. However, progress has been disrupted by the energy crisis and War on Ukraine. Record-high energy prices -- with gas prices increasing threefold -- and soaring inflation exceeding 30 per cent have significantly burdened the economy, with a major influx of refugees further straining public services and infrastructure. Amid rising public deficits, the macroeconomic situation has significantly worsened, with GDP now projected to contract by 4.7 per cent in 2022.

These pressures have exacerbated longstanding and inter-related vulnerabilities. **Competitiveness** is constrained by the small market size and large but inefficient SOE sector which still benefits from significant subsidies. Critical **governance** and institutional reforms still lag across an ineffective public administration, notably the judiciary, while significant capacity constraints hinder reform implementation. Public service delivery is impeded by poor physical infrastructure which has also limited trade **integration**. Finally, acute energy insecurity stemming from Moldova's long-standing reliance on a single energy source and supplier and limited external connections continues to inhibit efforts to diversify the energy mix and advance green transition.

While these challenges are daunting, the EU's June 2022 decision to grant Moldova candidate status (along with Ukraine) offers an important opportunity and should provide a strong impetus to accelerate critical reforms. In addition, the Bank is actively contributing to the multilateral Moldova Support Platform (MSP), which is providing concrete political, financial and technical assistance to help the country overcome the massive challenges it faces, particularly from the War on Ukraine. Since commencing operations in Moldova, the Bank has invested nearly €1.8 billion, much of it to support infrastructure as well as stabilise the banking sector. While a high degree of flexibility will be needed given future economic uncertainty, the Bank will look to build on these achievements, and stands ready to further bolster Moldova's resilience, including through establishment of pilot Reform Support Teams in key ministries to help strengthen its capacity to implement important reforms.

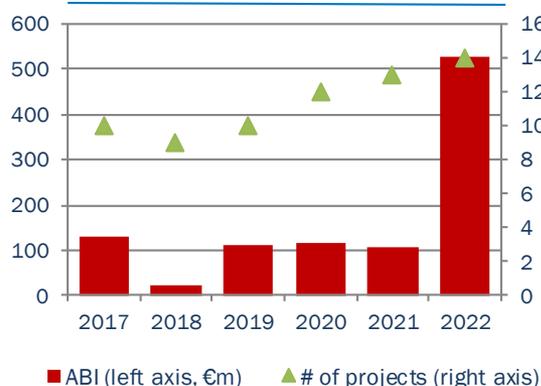
With that in mind, the Bank is set to pursue the following strategic priorities in Moldova in 2023-2028:

- *Strengthening energy resilience and security and promoting a greener economy*
- *Supporting competitive and inclusive private sector development, more resilient financial infrastructure and improved governance*
- *Improving inclusive infrastructure delivery to support growth and enhance connectivity and trade.*

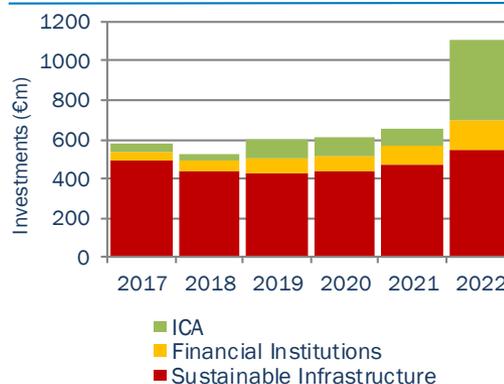
EBRD Investment Activities in Country (as of February 2023)

| | | | |
|----------------------------|---------|---------------------|---------|
| Portfolio | €1,111m | Active projects | 57 |
| Equity share | 5% | Operating assets | €743m |
| Private Share ¹ | 41.8% | Net cum. investment | €2,095m |

ABI and Operations



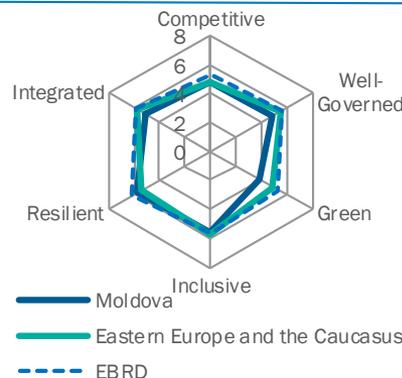
Portfolio Composition



Portfolio Dynamics



Transition Gaps²



Moldova Context Figures

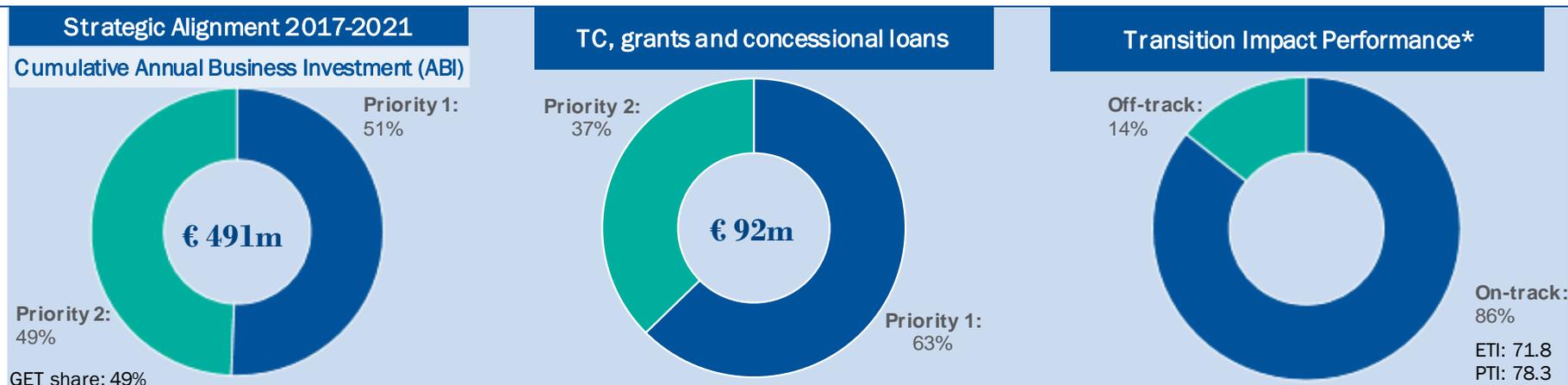
| | Country | Comparators |
|---|--------------------------------|--|
| Population (million), 2021 ³ | 2.6 | Armenia (3.0) Georgia (3.7) |
| GDP per capita (PPP, USD), 2021 ³ | 15,406 | Armenia (14,661) Georgia (16,906) |
| Global Competitiveness Index (WEF), 2019 | 86 th Out of 141 | Armenia (69 th) Georgia (74 th) |
| Unemployment (%), 2021 ⁴ | 3.2 | Armenia (15.3) Georgia (20.6) |
| Youth unemployment (% ILO est.), 2021 ⁴ | 8.6 | Armenia (36.1) Georgia (28.3) |
| Female labour force participation (% ILO est.), 2021 ⁴ | 33.9 | Armenia (42.7) Georgia (51.0) |
| Energy intensity (TPES/GDP), 2018 ⁵ | 0.47 | Armenia (0.26) Georgia (0.31) |
| Emission intensity/GDP (kgCO2/2015 \$), 2020 ⁵ | 0.35 | Armenia (0.19) Georgia (0.17) |

¹ Cumulative Bank Investment: 5 year rolling basis on portfolio.

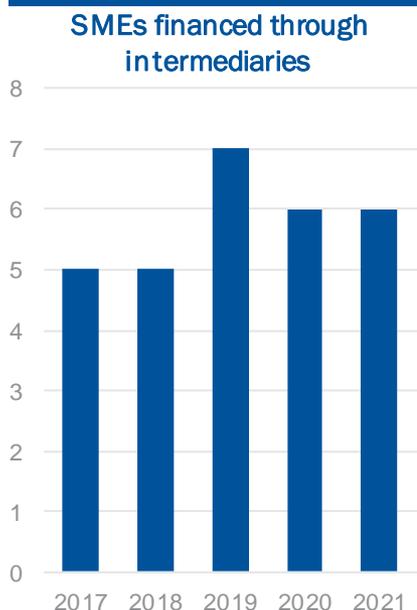
² Cf. EBRD Transition Report 2017-2018. ³ World Bank WDI. ⁴ International Labour Organisation. ⁵ IEA's Energy Atlas.

1. Implementation of Previous Strategy (2017-2022)

1.1. Key Transition Results achieved under previous Country Strategy



Priority 1: Improve Governance and strengthen Resilience by leading in the restructuring of the banking sector, and enhancing energy security



Key Transition Results

- Along with the IMF and World Bank, provided policy support to strengthen the independence of the Central Bank, improve banking transparency and supervision and progress other reforms (e.g., AML)
- Contributed significantly to Moldova's banking sector transformation through two major equity transactions in banks representing roughly 50% of sector assets, removing non-transparent shareholders and paving the way for new credit lines for the first time in 6 and 11 years, respectively:
 - €9m co-investment in Moldova Agroindbank (MAIB) alongside two private equity funds, and
 - support for entry of a strategic investor (Banca Transilvania) to Victoriabank (VB), thereby helping to resolve long standing transparency and corporate governance issues
- Further supported the banking sector through €85m in DCFTA (EU4Business) and MSME credit lines as well as TFP and risk sharing products, including the first Women in Business loan in Moldova with Prime Capital
- Signed US\$30m framework agreement for local currency swaps with the Central Bank to secure LCY for lending
- Extended US\$50m Emergency Gas Purchase Facility to mitigate the risk of supply disruption and support route diversification, provided €300m Gas Security Supply Facility to provide emergency gas supply and source diversification, and committed €20m to co-finance the Ungheni-Chisinau gas interconnection with Romania
- Supported further reform of the Moldovan energy sector through various policy engagements:
 - Revision of the Law on Natural Gas to align with the Energy Community acquis and Third Energy Package
 - Advice on competitive procurement in renewable energy tenders and improving the investment climate
 - Development of a Corporate Governance Action Plan for Energom, the state-owned energy company

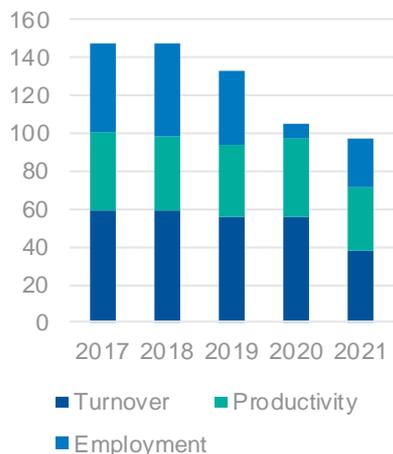
* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

1. Implementation of Previous Strategy (2017-2022)

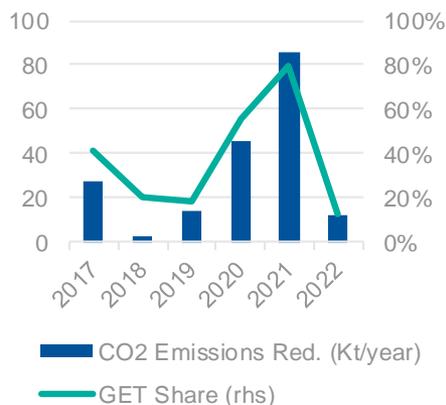
1.1. Key Transition Results achieved under previous Country Strategy

Priority 2: Enhance Competitiveness by supporting private firms in building capacity, and promoting commercialisation of public utilities and infrastructure

No. of ASB clients reporting increased...



CO2 Emissions Reduced (Kt/year)



Key Transition Results

Objective 1: Enhanced productivity and efficiency through increased competition, approximation with EU quality standards; Enhanced trade through global value chains

- Provided €85m to Kaufland to roll out new green concept stores with sustainable building certification
- Financed a new production line and provided €1m in emergency working capital to Glass Container Company
- Allocated US\$36m in working capital as part of US\$180m syndicated facility to agri-commodities trader to increase the volume of agricultural products sourced from farmers, including organic and high oleic sunflower seeds
- Continued to expand ASB projects, with 192 out of 327 clients reporting productivity improvements and 29 reporting increased exports
- Supported increased competitiveness and implementation of EU standards through €100m in loan financing to 330 SMEs via partner banks under EU4Business credit lines
- Continued to support the Economic Council, an advisory body to the Prime Minister on business climate reforms

Objective 2: Commercialisation and restructuring of public utilities and transport infrastructure

- Along with the EU and EIB, financed rail infrastructure rehabilitation and supported SOE reform, including through a €23.5m increase in the Moldova Railways Restructuring Project
- Launched the first solid waste management project in Moldova with a €9m loan to the city of Chisinau to upgrade the Tintareni landfill in compliance with EU standards
- Provided a €2.5m loan (supported by an E5P grant of €1.2m) with the city of Balti to provide energy efficient, low-floor trolleybuses under the Green Cities programme
- Helped facilitate amendment of the existing law on public supply of water and wastewater, in order to strengthen cost-recovery tariffs for water utilities

Objective 3: Increased energy and resource efficiency gains realised across sectors

- Commenced Phase II (€14m) of Balti District Heating Project, which aims to further modernise and improve district heating infrastructure, enhance energy efficiency and reduce gas and heat consumption
- Agreed Green City Action Plans for both Chisinau and Balti to identify and prioritise major urban challenges in energy efficiency, transport, water and wastewater, industry and waste management
- Co-financed €30m of a €75m Project for energy and resource efficiency upgrades in public buildings with the EU (via the Neighbourhood Investment Platform) and EIB
- Signed the first GEF-GCF loan in Moldova with MAIB (€5m), supporting renewable energy and energy and resource efficiency investments in the residential and business sectors
- Advanced three energy performance contracts (EPCs) under the Chisinau Buildings Project, which aim to increase energy efficiency in public buildings

1. Implementation of Previous Strategy (2017-2022)

1.2. Implementation Challenges and Key Lessons

Context for Implementation

Moldova is a small country constrained by serious structural weaknesses, including poor governance, limited institutional capacity and an uneven business environment. The country has experienced a number of challenges in recent years, including a constitutional crisis in 2019 that led to change in government and a major recession in 2020 caused by the COVID-19 pandemic. Emigration remains high, particularly among youth. Although the current government has embarked upon an ambitious reform programme driven by Moldova's European aspirations, progress has been disrupted by the War on Ukraine, with the refugee influx further straining public services and infrastructure. The macroeconomic situation also significantly worsened in 2022, with inflation exceeding 30%, public deficits rising and GDP growth stalling. These pressures have exacerbated longstanding vulnerabilities, such as the large but inefficient SOE sector, a still fragile financial system, ineffective governance, and acute energy insecurity stemming from Moldova's long-standing reliance on a single energy source and supplier. However, the EU's June 2022 decision to grant Moldova candidate status should accelerate critical reforms. While a high degree of flexibility will be needed given future economic uncertainty, the Bank stands ready to further bolster Moldova's resilience (including through multilateral initiatives such as the MSP), strengthen its capacity to implement important reforms via the pilot Reform Support Teams and support its transition to a modern economy.

| Implementation Challenges | Key Lessons & Way Forward |
|---|---|
| <ul style="list-style-type: none"> Small market size, limited exports and a lack of enabling infrastructure have limited European trade integration to date | <ul style="list-style-type: none"> Seek to capitalise on renewed reform momentum from EU candidate status, leveraging instruments such as DCFTA and EU4Business |
| <ul style="list-style-type: none"> Despite some improvements, continued deficiencies in the rule of law and business environment still impact the banking sector and deter FDI | <ul style="list-style-type: none"> Along with the EU and IMF, continue to support reforms in the banking sector and business environment, anchored around EU approximation |
| <ul style="list-style-type: none"> Limited institutional capacity within the government remains a key barrier to reform implementation | <ul style="list-style-type: none"> As in other EBRD CoOs, embedding Reform Support Teams in key ministries can instil crucial skills and improve delivery of transaction-linked policy objectives, while also advancing broader sector reforms |
| <ul style="list-style-type: none"> Limited appetite for PPPs and privatisation to date, coupled with weak institutional capacity in SOEs and public utilities, which has also led to delays in implementing public infrastructure projects | <ul style="list-style-type: none"> Continue to utilise PSCs as a vehicle for financial and operational improvements (including related policy engagement, e.g., on tariffs) while advocating for greater PSP and governance improvements longer term |
| <ul style="list-style-type: none"> Limited traction to date in improving energy efficiency with fragmented local public administration also limiting scope for sustainable municipal projects | <ul style="list-style-type: none"> Green credit lines can extend the reach of energy efficiency measures, while Green Cities initiatives can catalyse action at the municipal level, along with critical capacity building |
| <ul style="list-style-type: none"> Despite large potential for wind and solar, renewable energy sources remain undeveloped absent a regulatory framework for auctions | <ul style="list-style-type: none"> Continue to provide policy support to remove obstacles for commercially viable projects in the renewables sector |
| <ul style="list-style-type: none"> Slow progress on energy interconnections and limited political appetite in the past for unbundling the energy sector has inhibited energy security | <ul style="list-style-type: none"> Continue to strive for greater regulatory convergence and better integration with EU energy markets, including through implementation of the Third Energy Package |

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

Moldova - Main macroeconomic indicators

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------|-------|------|------|-------|
| GDP growth (% y-o-y) | 4.2 | 4.1 | 3.6 | -8.3 | 13.9 |
| CPI inflation (% avg.) | 6.6 | 3.1 | 4.8 | 3.8 | 5.1 |
| Government balance (% of GDP) | -0.6 | -0.8 | -1.4 | -5.2 | -1.9 |
| Current account balance (% of GDP) | -5.8 | -10.8 | -9.5 | -7.7 | -11.6 |
| Net FDI (% of GDP) [neg. sign = inflow] | -1.5 | -2.3 | -4.0 | -1.3 | -1.7 |
| External debt (% of GDP) | 71.8 | 65.3 | 63.4 | 73.2 | 65.9 |
| General government gross debt (% of GDP) | 34.3 | 31.2 | 28.3 | 36.7 | 33.0 |
| Unemployment (% pop) | 4.1 | 3.0 | 5.1 | 3.8 | 3.2 |
| Nominal GDP (\$ bn) | 9.5 | 11.3 | 11.7 | 11.5 | 13.7 |

Source: National authorities, IMF and EBRD calculations

- **Moldova is a small economy with real incomes lagging behind other countries in the region.** Faster convergence is constrained by serious structural weaknesses. Weak governance, poor public services and an unstable business environment have had negative effects on investments and caused sizeable emigration of the young and active population. With an insufficient level of investments and especially FDI, growth is predominantly driven by remittances that fuel private consumption, while low value added products predominate in modest export volumes.
- **The EU is Moldova's main trading partner, accounting for around two-thirds of exports (up from one-third in 2000).** The signing of the Association Agreement in 2014 and Deep and Comprehensive Free Trade Area (DCFTA) in 2016 significantly contributed to this expansion. Nevertheless, the trade to GDP ratio remains unusually low (at 30.7%) for a small economy. Expanding trade and increasing participation in global value chains would boost growth.
- **Despite some progress, the business environment faces multiple constraints.** Low survival rate of firms reflect a difficult business environment and lack of business continuity. Informality remains a significant factor in the Moldovan economy and has become a more pressing issue for fair competition. Informality is being perpetuated by the low quality of public goods and services, the low level of transparency of budgetary spending, low tax compliance, poor quality of public institutions and regulations, and higher profits from partially or fully hidden revenues.
- **Just as the new government embarked on an ambitious reform program, it was disrupted by the impact of the War on Ukraine.** Due to the fragile economy and an already constrained institutional capacity, Moldova has struggled to cope with an influx of Ukrainian refugees straining the country's resources and infrastructure. Besides these direct implications, Moldova's macroeconomic stance has significantly worsened, with inflation running above 30%, public finances deteriorating and GDP likely to contract by 4.7 per cent in 2022¹. On the other hand, the granting of EU candidate status in June 2022 could facilitate the acceleration of reforms, with a focus on strengthening the rule of law.

2. Economic Context

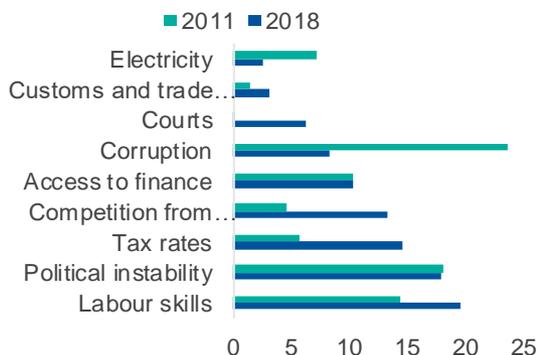


2.2 Key Transition Challenges

Competitive (4.75)

- Economy is **open to international trade and investment**, but access to the EU market should be leveraged more.
- Markets are distorted by **state-owned enterprises** (SOEs) and significant state subsidies.
- The private sector has **limited capacity to generate added value and innovate**.
- **Investment environment** is not attractive for foreign investors.
- **Institutions and regulations** from a competition standpoint are mostly formally aligned with EU standards.
- The **IT sector** has become a key growth driver and a source of employment in recent years.

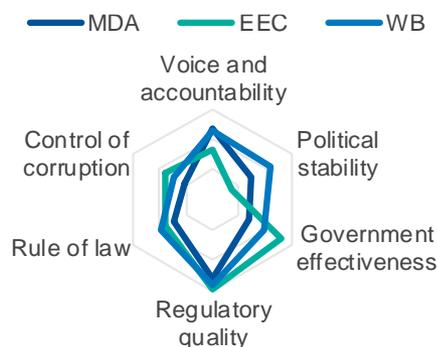
BEEPS survey most pressing issues



Well-governed (4.88)

- **Rule of law and anti-corruption frameworks** have been ineffective despite legal and institutional foundations in place.
- Improving the quality of the **judiciary** and strengthening judicial independence is central to advancing wider governance reforms.
- **Limited government capacity** continues to hinder implementation of broader reforms
- Despite slight improvements, **corruption** is still a systemic challenge: Moldova ranks 105th in the 2021 Corruption Perceptions Index.
- The **state share** in the economy is large and concerns regarding **transparency** and **corruption** are high in the **SOE sector**.
- The **institutional framework for SOEs** is also fragmented, prone to sudden changes and has led to blurred institutional responsibilities.

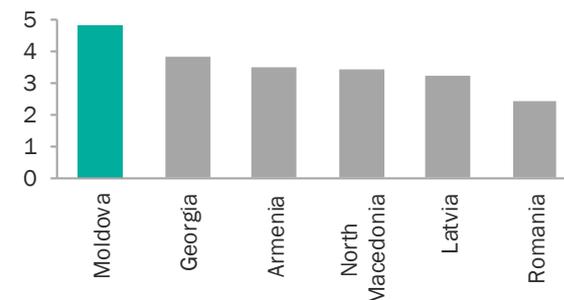
Governance indicators



Green (3.81)

- **Energy and carbon intensity** are significantly higher than the EU average.
- The final **energy consumption** mix is dominated by fossil fuels and **renewable sources** remain scarce and dominated by biomass.
- Delays in finalising the regulatory framework have held back **green economy investments**.
- Prevalence of Soviet-era structures limits **energy efficiency**, and resource-efficient technologies are mostly lacking.
- Moldova's structural conditions make the country highly vulnerable to **climate risks**.
- **Air pollution** poses serious health risks.

Energy intensity in terms of primary energy and GDP, 2019 (MJ per 2017 USD PPP)



2. Economic Context

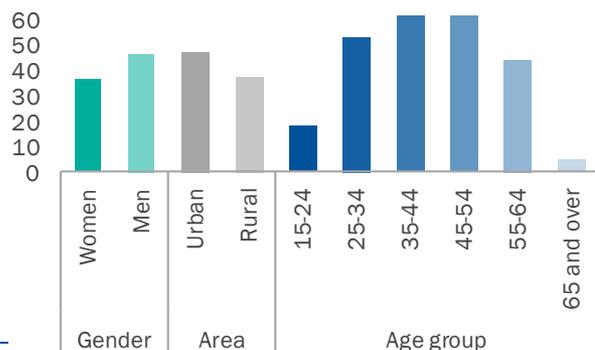


2.2 Key Transition Challenges

Inclusive (5.64)

- **Labour market** deficiencies cause emigration, skills mismatches and high informal employment.
- **Labour force participation** is especially low for youth (18%), women (36%) and in rural areas (37%). Social norms and a lack of affordable childcare constrain female workers while youth emigration is high. Firms report a worsening **skills shortage**.
- **The population's access to services** is insufficient, particularly in terms of financial and physical infrastructure.
- **Gender bias** formally is low, but in practice, women still tend to face discrimination.
- There are rural and gender gaps in **access to broadband and computers**.

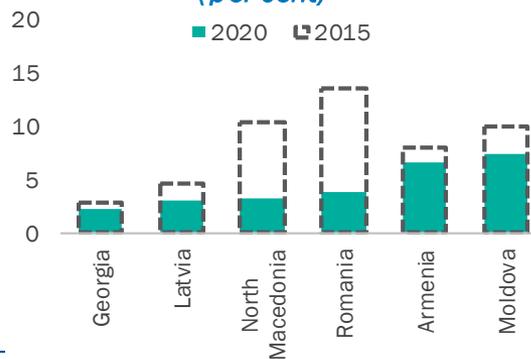
Labour force participation rate 2021 (per cent)



Resilient (5.74)

- Financial stability and energy security are both **vulnerable to adverse shocks**.
- **Financial resilience** is adversely affected by legal proceedings against banks for legacy issues as well as vulnerabilities in the fast growing non-bank financial sector requiring closer supervision arrangements.
- **Financial and capital markets** are underdeveloped.
- **Credit penetration** is low and there is a lack of financing opportunities for MSMEs through official channels, leading to an increase in **informal lending**.
- **Energy resilience** still suffers from the inherited high concentration of the energy mix from a single source and supplier.
- The potential to diversify energy sources is limited due to constraints in **connectivity**.

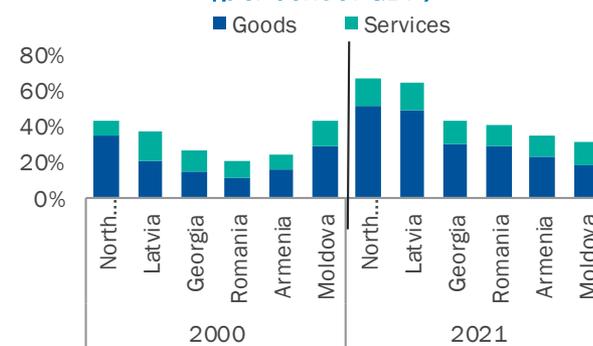
Non-performing loans (per cent)



Integrated (5.12)

- **External trade** has much a smaller share in total output than similar small economies in the EBRD region.
- **Cross-border integration** could be enhanced by improving infrastructure, logistical competence, administrative processes and services.
- **Export intensity** is constrained by logistics deficiencies.
- **Public investment in infrastructure** has been very limited and inadequately managed, resulting in poor condition of road, rail and port infrastructure. Insufficient **municipal infrastructure** limits the efficient provision of utilities services.
- **Digital connectivity** is good but so far **has failed to promote further integration** into the global economy and help Moldova move to higher value added sectors.

Exports of goods and services (per cent of GDP)



3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

Following the confirmation of Moldova’s EU membership candidate status in June 2022, the Government’s reform agenda is likely to evolve and be shaped by reforms related to the accession process. The Government will also continue to advance Moldova’s existing national development strategy, **Moldova 2030**, which is closely aligned with the UN’s 2030 Agenda for Sustainable Development.

The strategy has four priority areas:

- **Sustainable and inclusive economic development:** focusing on inclusion, sustainability and growth. For a more inclusive economy, the strategy aims to promote entrepreneurship and the employment of vulnerable groups, reduce informality and improve access to infrastructure. On sustainability, it emphasises increased renewable energy generation, investments in energy infrastructure and other measures to address energy poverty by increasing efficiency. To increase incomes and growth it focuses on facilitating SME access to finance, reducing corruption and promoting innovation.
- **Long-term human and social capital:** aiming at expanding access to social services, improving the quality of public health and education, promoting lifelong learning and professional training and enhancing access to labour markets for disadvantaged groups.
- **Honest and efficient institutions:** focusing on improving public governance through combatting corruption, increasing the independence and efficiency of the judiciary, combatting discrimination against women, and improving the access of people with disabilities and the elderly to public services.
- **A healthy environment:** centred around environmental conservation, with an emphasis on increasing forest coverage, improving water quality and ensuring a cleaner air by promoting e-mobility.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Enhance energy security and energy efficiency, capitalising on the progressive reorientation of the energy market and promoting greater diversification of the energy mix
- Support further development of renewable energy in the country, including through strengthening the legal and regulatory framework and promoting green investments
- Assist the development and implementation of reforms and regulatory changes needed to meet EU accession requirements
- Provide capacity-building support to the government and promote institutional strengthening to improve the reform environment and create an enabling business climate
- Promote greater local and regional connectivity through improved transport links, including further investments in road and railway networks as well as continued support to develop ports

3.3. Key Messages from Civil Society to EBRD

- CSOs endorsed the proposed priorities to foster good governance, energy resilience and security, green economy, private sector development and financial and inclusive infrastructure. At the same time they noted that Moldova’s business environment needs further support by building capacity in public and private institutions, advancing legislative reforms, enhancing gender and economic inclusion, and improving access to financial instruments.
- CSOs encouraged the Bank to green the economy and advance sustainable development by (i) diversifying access to financial instruments, and (ii) supporting social and green entrepreneurship, energy and food security, waste management, SMEs, and public-private partnerships. Digital transformation can also be advanced by investing in ICT infrastructure, skills, and FinTech solutions.
- CSOs expressed concern that the authorities have not involved them in policy dialogue and consultations and urged the EBRD to support their engagement in national strategies and roadmaps that will advance Moldova’s reform agenda.

4. Defining EBRD Moldova Country Strategy Priorities



| What needs to change ? (Country Diagnostic) | Can it be changed ? (Political Economy) | What can the Bank do ? (Institutional Capabilities) | Strategic Priorities (2023-2028) | What We Want to see (Key Objectives) |
|---|--|--|--|--|
| <ul style="list-style-type: none"> Structural reforms in energy sector and integration with EU markets required Energy efficiency of electricity generation needs to be improved Loss making SOEs in the energy sector Acute energy insecurity stemming from reliance on single source/supplier and poor interconnections, worsened by War on Ukraine High carbon and energy intensity, significantly above EU average 23.8% renewables share in 2019 but unexploited potential of solar and wind | <ul style="list-style-type: none"> Acceleration of energy reforms from 2021 energy crisis, with increasing prices driving greater energy efficiency Electricity transmission synchronised with ENTSO-E in March 2022 Updated NDC contains ambitious targets, (including SDD) aiming for 70% reduction in GHG levels by 2030 (with potential to increase to 88% with further support) Increased renewable energy can also help improve energy security Government exploring options for procuring gas from global markets | <ul style="list-style-type: none"> EBRD can facilitate more efficient and reliable electricity generation, transmission and distribution EBRD can support energy market reform EBRD products can strengthen energy and resource efficiency and climate resilience (e.g., GEFFs) Considerable experience in advancing renewable energy projects by developing appropriate regulatory frameworks Strong track record of institutional, financial and advisory support for green investment and climate policy | <p>Strengthening energy resilience and security and promoting a greener economy</p> | <ul style="list-style-type: none"> More resilient energy systems Increased renewable energy capacity and a more diversified energy mix Increased energy and resource efficiency and climate resilience |
| <ul style="list-style-type: none"> Small market size limits growth and innovation, with limited value added and weak export performance Concentrated banking sector with low credit penetration & limited financial alternatives Dominant but inefficient SOE sector distorts the market Limited institutional capacity/enforcement Unstable business environment and serious governance challenges persist, including corruption, lack of judicial independence and government ineffectiveness External migration, aging population and high informality all limit human capital Refugee flows have further strained resources and infrastructure | <ul style="list-style-type: none"> Reform oriented government in place and reform agenda likely to be boosted by EU candidate status Increased visibility and support from donors given Russian War on Ukraine SOE reform a major priority under the IMF programme Gov't commitment to strong financial market reforms, including adoption of international standards in banking and financial regulation and supervision IT sector an increasing growth driver and source of employment Government focused on increasing formal employment opportunities, including for vulnerable groups | <ul style="list-style-type: none"> Well tailored products to help SMEs and corporates grow, including credit lines and non-financial tools through ASB EBRD digital approach can provide a framework to support digital transition Strong track record in supporting commercialisation and improved corporate governance in SOEs Focused policy engagement to support institutional and business climate reform Specialised expertise in developing capital markets and financial infra EBRD can promote skills-enhancing solutions and greater financial inclusion and help address spillover effects from the War on Ukraine through the RLF | <p>Supporting competitive and inclusive private sector development, more resilient financial infrastructure and improved governance</p> | <ul style="list-style-type: none"> A more competitive, inclusive and resilient private sector Improved governance and business environment Increased resilience through a stronger financial sector |
| <ul style="list-style-type: none"> Despite deeper ties with the EU, a lack of transport infrastructure inhibits trade, with roads in particular needing improvement Cross-border integration also suffers from ongoing logistics challenges Access to broadband still marked by rural and gender gaps and remains expensive Poor public service delivery constrains equality of opportunity Fragmented local public administration with limited power and resources Increased climate vulnerability, including physical climate risks (e.g., flooding) | <ul style="list-style-type: none"> EU accession candidacy should stimulate further reform implementation Proximity to Ukraine creates insecurity but may galvanise international support for improved export/trans-shipment links Weak public finances and institutional capacity have strained infra quality Good digital connectivity can help Moldova further integrate into the global economy and higher value added sectors Government priority to regionalise municipal services beyond local boundaries and modernise infrastructure | <ul style="list-style-type: none"> Along with partners, EBRD can finance select transport projects to facilitate enhanced trade and connectivity EBRD can support digital infrastructure and connectivity Expertise in improving customs/logistics Considerable experience developing sustainable infrastructure via dedicated GET frameworks (e.g., Green Cities) EBRD GCAPs can spur more sustainable, climate resilient cities/transport systems and infrastructure, including to mitigate challenges from refugee inflows | <p>Improving inclusive infrastructure delivery to support growth and enhance connectivity and trade</p> | <ul style="list-style-type: none"> Improved quality and connectivity of transport networks and trade infrastructure Improved quality, sustainability and inclusivity of municipal and environmental infrastructure |

5. Activities and Results Framework

Priority 1: Strengthening energy resilience and security and promoting a greener economy

| Key Objectives | Activities (Outputs) | Tracking Indicators (Outcomes) |
|--|--|--|
| <p>More resilient energysystems</p> | <ul style="list-style-type: none"> In line with Moldova 2030, continue to support key cross-border energy interconnectors (both gas and electricity) for better integration with EU energy markets, as well as infrastructure for a wholesale electricity market Support more efficient power generation and balancing capacity as well as other investments to modernise and upgrade transmission and distribution networks, including through potential privatisation Continue to advance energy market reform through institutional support and policy engagement to implement the EU Third Energy Package, including the unbundling of gas and electricity sectors and ensuring competitive third party access for energy supplies and sources of generation | <ul style="list-style-type: none"> Total net increase in energy infrastructure usage and/or capacity (BCM/MW) Legal, institutional and/or regulatory improvements to implement the EU Third Energy Package |
| <p>Increased renewable energy capacity and a more diversified energy mix</p> | <ul style="list-style-type: none"> Continue to explore bankable opportunities in the renewable energy sector, with an emphasis on solar and wind In conjunction with the above, continue policy engagement and technical assistance to support the establishment of a more robust regulatory framework for renewable energy auctions Promote greater efforts to diversify the energy mix, including selective consideration of options to enhance energy security and connectivity and promote the transition to cleaner sources consistent with Moldova's decarbonisation efforts and a low carbon pathway | <ul style="list-style-type: none"> Renewable energy capacity installed (MW) Legal, institutional and/or regulatory improvements supporting renewable energy |
| <p>Increased energy and resource efficiency and climate resilience</p> | <ul style="list-style-type: none"> Deploy further green intermediated financing (e.g., GEFFs) through gender responsive energy and resource efficiency credit lines with PFIs and support other green investments and related advisory in the private sector, including through ASB support Support further investments to enhance energy efficiency in public and residential buildings, including under the Green Cities framework Explore opportunities to promote greater climate resilience, adaptation and decarbonisation, including potential technical and financial support to implement Moldova's Nationally Determined Contribution to the Paris Agreement Look for opportunities to enhance circular economy, including through potential investments in the waste management sector Continue to explore opportunities to scale up energy performance contract investments | <ul style="list-style-type: none"> Total CO2e reduced (ton/y) Total primary energy saved (GJ/y) Number/volume of EE loans extended by PFIs supported by EBRD finance |



5. Activities and Results Framework

Priority 2: Supporting competitive and inclusive private sector development, more resilient financial infrastructure and improved governance

| Key Objectives | Activities (Outputs) | Tracking Indicators (Outcomes) |
|--|---|---|
| A more competitive, inclusive and resilient private sector | <ul style="list-style-type: none"> Provide direct finance to green, innovative, inclusive and export-oriented corporates and SMEs in order to strengthen energy and resource efficiency, climate resilience and adaptation, value creation, digitalisation, food security and trade linkages in light of the country's EU integration ambitions, coupled with tailored advisory to help firms scale up, strengthen governance, enhance export readiness and better comply with EU standards Support FDIs, including in free economic zones, with a view to develop human capital and regional trade links Support SME competitiveness and technological transformation through tailored business advice, skills development and use of innovative digital platforms Facilitate access to finance through partner banks via dedicated credit lines, risk sharing and related products, complemented by targeted incentives and/or technical assistance as required to reach underserved segments (e.g., SMEs, WiB, YiB, local currency lending), as well as increase regional trade through TFP Selectively support bankable microfinance institutions and other NBFIs targeting niche and underserved areas, such as micro businesses, women and youth, and promote digital access channels and alternative fintech services to facilitate greater financial inclusion As part of the Bank's Ukraine crisis response, provide assistance under the RLF to refugees and businesses affected by supply chain and other disruptions or providing essential goods and services Alongside corporate clients and other partners, support enhanced vocational training and other skills initiatives to address gaps, including to develop green skills, and create a better qualified and gender inclusive workforce Continue to explore opportunities to support digitalisation (e.g., digital infrastructure, services and connectivity) | <ul style="list-style-type: none"> Number of clients reporting increased exports and/or improved operational performance Number/volume of loans extended by PFIs disbursed for SMEs |
| Improved governance and business environment | <ul style="list-style-type: none"> Look to support improved governance, equal opportunities and greater commercialisation of SOEs through policy engagement and technical assistance, including support for restructuring, strategic workforce management and development of a state ownership policy Strengthen reform implementation through a pilot deployment of dedicated Reform Support Teams to help build critical capacity within government administration and SOEs, including in the energy and infrastructure sectors On a selective basis, explore pre-privatisation and privatisation support opportunities Continue to support critical investment climate improvements, including gender mainstreaming and digital transformation, in cooperation with the Economic Council and other bodies, and bilaterally where appropriate | <ul style="list-style-type: none"> Corporate governance improved in supported SOEs Legal/regulatory improvements to the business environment |
| Increased resilience through a stronger financial sector | <ul style="list-style-type: none"> Continue active policy dialogue alongside other international partners such as the IMF and EU to strengthen financial sector resilience, e.g., through harmonisation of regulations with EU standards and to ensure transparency and corporate governance reforms are sustained Assist with developing money markets, a capital markets strategy, and strong business models for Moldova's capital market infrastructure, including the stock exchange and central securities depository that will contribute to regional integration of Moldovan financial markets and promote good governance and business practices | <ul style="list-style-type: none"> Legal and regulatory improvements to the bank prudential framework and capital markets |

5. Activities and Results Framework

Priority 3: Improving inclusive infrastructure delivery to support growth and enhance connectivity and trade

| Key Objectives | Activities (Outputs) | Tracking Indicators (Outcomes) |
|--|---|--|
| Improved quality and connectivity of transport networks and trade infrastructure | <ul style="list-style-type: none"> Where possible with multilateral donors, and taking into account sovereign debt capacity and Paris alignment, look for opportunities to further support the sustainable, inclusive rehabilitation of key transport infrastructure, including by: <ul style="list-style-type: none"> Upgrading road networks, including those that are part of TEN-T; modernising the railway sector through further infrastructure rehabilitation and financing modern and efficient rolling stock; and continued operational support and possible expansion of the Giurgulesti port In conjunction with the above, look for ways to improve and increase cross-border trade by enhancing capacity, upgrading and integrating logistics and expanding modalities to facilitate the transit of goods and people in the region, including as part of the EU-Ukraine Solidarity Lanes Continue to improve efficiency, transparency and digitalisation of customs operations, including by advancing e-Customs clearance processes, in line with EU requirements | <ul style="list-style-type: none"> Net increase in transport infrastructure usage and/or capacity Number of individuals with improved access to transport services Number of new or updated digital technologies or products introduced |
| Improved quality, sustainability and inclusivity of municipal and environmental infrastructure | <ul style="list-style-type: none"> Continue to finance sustainable and inclusive municipal infrastructure and related services, including water and wastewater, waste management, urban transport and district heating, combined with technical assistance/capacity building to public utilities and municipalities to support effective financial and operational management and improve quality and efficiency of service delivery and compliance with EU environmental directives, including as part of the Green Cities Framework In conjunction with the above, look for particular opportunities to support the provision of basic utilities and vital public services, such as energy and transport, as part the Bank's Resilience and Livelihoods Framework Support nature-based solutions and promote climate resilience and adaptation across infrastructure projects On a selective basis, explore investment opportunities in sustainable municipal and environmental financial instruments (e.g., green bonds, sustainability linked bonds) Advance policy engagement initiatives on tariff reform, inclusive procurement, sustainability, transparency and governance in municipal services, including regionalisation where appropriate, as well as alignment with the goals of the Paris Agreement | <ul style="list-style-type: none"> Number of individuals with improved access to services (water/wastewater/solid waste) Total water saved (m3/y) |



6. Mapping of International Partners' Complementarity



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in EBRD Business Areas

| EBRD BUSINESS AREAS | | | | | | | | | | | | | | |
|---|----|-----------------------------------|--------------------------|--------------------|-----|-------------------|----------------------------|----------------|------------------------|-----------------------|--------------------|----------------------------------|----------------|--|
| | | Sectors | | | | | | | Cross-cutting Themes | | | | | |
| | | Industry, Commerce & Agribusiness | | | | | Sustainable Infrastructure | | Financial Institutions | Strategic Initiatives | | | | |
| Indicative average annual investments/ grants (€m, 2017-2021) | | Agribusiness | Manufacturing & Services | Property & Tourism | TMT | Natural resources | Energy | Infrastructure | Banking & non-Bank FIs | Green Economy | Inclusion & Gender | Local Currency & Capital Markets | Small Business | |
| EIB | 89 | | | | | | € | € | € | € | | | € | |
| WB | 75 | €P | | P | | | €P | €P | P | € | €P | | | |
| EU | 54 | P | P | | | | €P | €P | P | €P | €P | | €P | |
| USAID | 36 | € | | | | € | €R | €P | € | P | | | € | |
| CEB | 20 | | | | | | | | € | | € | | € | |
| BSTDB | 17 | € | | | | | | | € | | | | € | |
| KfW | 12 | | | | | | | € | | | | | € | |
| EBRD | 98 | € | € | | | €P | €R | €P | €P | €R | P | P | €P | |

Potential Areas of Cooperation



Competitive:

- Continue partnership with EU to improve export readiness, value creation and SME competitiveness via EU4Business and coordinate with Moldova's ODA to ensure complementarity



Green:

- Cooperation with EU and EIB to strengthen energy interconnections and enhance energy security
- Continue to co-finance green and climate resilient investments leveraging EFSD+ and GCF funds



Integrated:

- Seek co-investment opportunities with EU, EIB and WB to address large investment needs in transport and municipal infrastructure



Resilient:

- Maximise coordination with IFIs to address rising external vulnerabilities and geopolitical risks from the War on Ukraine, including via the Moldova Support Platform
- Continue close cooperation with IMF and EU to safeguard banking sector governance and resilience, including harmonisation with EU standards

€ Area of significant investments

P Area of significant policy engagement

● Focus mostly on private sector

○ Focus mostly on public sector

Note: IFI activity mapping based on publicly available information.

Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2014. Average exchange rate 2019 is used.

7. Implementation Risks and Environmental and Social Implications



| Risks to the Strategy Implementation | Probability | Effect | Environmental and Social Implications |
|--|-------------|--------|---|
| <ul style="list-style-type: none"> ▪ Macroeconomic risks, including from higher inflation, rising energy prices, and continuing border and supply chain disruptions from Russia's war on Ukraine could all undermine macroeconomic stability and longer term investments | | | <p>•Assessment and Management of E&S Impacts: Ensure direct, indirect and cumulative E&S impacts of projects (including gender) are appropriately assessed, avoided and mitigated. TC support to regulators with E&S risks and impacts (including biodiversity and water given stresses on these systems) and strategic assessments may be needed, along with support to public sector clients with the implementation of E&S management systems and contractor management according to international standards.</p> <p>•Labour and Working Conditions: Ensure clients' labour practices comply with EBRD's PR2, in particular wages, benefits and conditions of work; non-discrimination and promotion of equal opportunities and freedom of association. TC funds may be necessary to support clients in addressing and preventing GBVH and child and forced labour risks in their own operations, plus contractors and supply chains by developing and implementing appropriate policies and response mechanisms with special attention on vulnerable groups, including informal workers and refugees.</p> <p>•Resource Efficiency and Pollution Prevention and Control: Identify investments that support circular economy and resource efficiency and prevent environmental pollution. Support transition to a diversified low carbon and resource efficient economy (such as wind/solar energy, water and energy efficiency), and strengthen resilience to climate change. Projects and TCs addressing air, water, and waste-management quality in urban areas and sustainable development across all sectors are priorities.</p> <p>•Health and Safety: Improve occupational and community health and safety standards across sectors. TC funds and stakeholder engagement on road, traffic and electrical safety may be required to improve standards and raise awareness.</p> <p>•Land Acquisition, Involuntary Resettlement and Economic Displacement: Ensure any project requiring acquisition of land and resettlement comply with EBRD compensation and livelihood restoration requirements, with special attention on preserving livelihoods of informal land users and vulnerable groups (e.g. rural households, refugees).</p> <p>•Biodiversity Conservation and Sustainable Management of Living Natural Resources: Support clients with assessments to ensure species and habitats of conservation importance are protected and ecosystem services and natural capital are sustainably managed and resilient, especially in critical economic sectors, such as agriculture. TC funds may be needed to support these activities.</p> <p>•Cultural Heritage: Work with clients to ensure appropriate assessment on construction projects to identify impacts, consult with stakeholders and preserve cultural heritage</p> <p>•Financial Intermediaries: Ensure FI partners have adequate E&S capacity and risk management procedures in place.</p> <p>•Stakeholder Engagement: Support clients in delivering meaningful engagement, project disclosure and inclusive consultation, accompanied with effective grievance mechanisms, throughout the project lifecycle.</p> |
| <ul style="list-style-type: none"> ▪ Limited fiscal space and rising public debt are likely to prevent public expenditures on large infrastructure projects, necessitating substantial grant resources or concessional finance | | | |
| <ul style="list-style-type: none"> ▪ Instability of the investment climate and weak governance may deter crucial foreign investment, particularly in the financial and real sectors | | | |
| <ul style="list-style-type: none"> ▪ Continued low appetite for privatisation and PPPs in public infrastructure could curb the EBRD's potential to promote relevant projects, and weak administrative capacity could delay preparation and implementation | | | |
| <ul style="list-style-type: none"> ▪ Vulnerability to climate change may negatively affect viability of municipal infrastructure and agribusiness projects | | | |
| <ul style="list-style-type: none"> ▪ Any weakening of external reform drivers (e.g., EU approximation) or loss of domestic political support for such anchors, could negatively impact the depth and scope of EBRD engagement | | | |
| <ul style="list-style-type: none"> ▪ A continued influx of refugees may further strain public services and infrastructure and dilute the government's reform focus | | | |

8. Donor Co-Financing Assessment

8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including:

- Grants and guarantees to cope with the fallout of the War on Ukraine, from refugee influx to energy shortages
- CAPEX Grants to promote investments in green infrastructure and diversify energy sources, as well as policy and advisory support to create an adequate regulatory environment
- Co-investment grants to further develop key transport and logistics infrastructure promoting internal/regional integration
- Technical cooperation grants for both the public and private sector to improve governance, support legal reform and develop institutional capacity
- Provide direct debt and equity finance to corporations and SMEs to diversify and enhance private sector resilience
- Grants to increase digital connectivity and access to broadband.

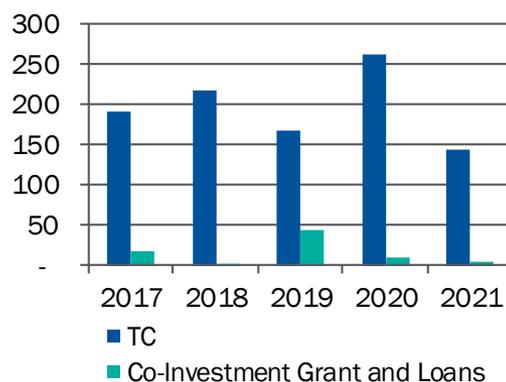
8.2. Potential Sources of Donor Funds

- In light of its grant of candidate status to Moldova, the **European Union** should be the preferred donor funds source. The EU has already been the largest contributor over the last five years notably through the EBRD's Small Business Initiative for the DCFTA. Most importantly, the EU made Moldova a priority for its new energy sector EFSD+ guarantee programme, which covers investments in large scale renewables, grids and networks, as well as in the next generation of energy transition technologies.
- **Multilateral Climate Funds** are also available to support green transition, including the **Green Climate Fund (GCF)**. The GCF has already financed infrastructure projects in Balti and Chisinau. Moldova can also access **Climate Investment Funds (CIF)**.
- The **largest bilateral donor**, Sweden, has provided financial support and business advice to Moldovan SMEs. France, Japan, Korea and Taipei China can provide TC grants to mitigate the effects of the War on Ukraine. Funds can be channelled via **Multi-Donor Accounts** like the Ukraine Crisis Response Fund, Sustainable Infrastructure Fund (SIF) and High Impact Partnership for Climate Action (HIPCA).
- Within the **EBRD Shareholder Special Fund (SSF)**, Moldova is eligible to access the Ukraine Resilience Package given serious vulnerabilities related to the War on Ukraine. The Eastern Europe and the Caucasus (EEC) pot also covers transactional TCs.

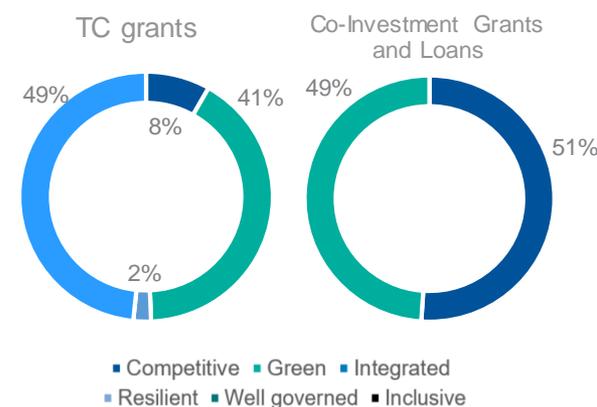
Selected Affordability Indicators

| | | EBRD regional percentile rank ¹ |
|--|--------|--|
| GDP per capita (PPP, current, \$) ² | 15,637 | 58 th |
| ODA Country | Yes | N/A |
| ODA as share of Gross National Income (%) ³ | 0.77 | 54 th |
| ODA per capita (\$ - current prices) ³ | 198.46 | 73 rd |

Donor finance during last strategy (€m)⁴



Use of grants in 2020-21⁵



1. Simple percentile rank reported as the share of EBRD economies that are represented below Moldova.
 2. Source: WDI (2019 or most recent year)
 3. Source: OECD (2018)
 4. 2017-2019 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings.
 5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2018 and 2019.

Annexes



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Since the adoption of the previous Country Strategy, Moldova’s commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank have notably strengthened following a political change in 2020-2021. The new reform-oriented authorities have taken steps to strengthen democracy and address the country’s long-standing vulnerabilities, in particular in the field of justice, rule of law and the fight against corruption. At the same time, Moldova’s reform ambitions require enhancing the capacity of public administration, especially in view of the magnitude of the challenges it faces.

For most part of the period since the adoption of the previous Country Strategy, Moldova witnessed political instability and democratic backsliding while the independence of key institutions was seriously compromised by the excessive influence of vested interests. The presidential election in November 2020 and the early parliamentary elections in July 2021 have changed considerably the country’s political landscape. The reform-oriented candidate gained a convincing victory (57.7% of the popular vote) in the 2nd round of the presidential elections, while a pro-reform party won parliamentary majority, providing for a clear alignment of the presidential, executive and legislative powers on a path of reforms for the first time in the recent Moldova’s history. Building on their strong popular mandate, the new Moldovan authorities have embarked on a far-reaching programme of ambitious reforms, praised by relevant international institutions.¹

Moldova’s democratic reform agenda is closely linked to the country’s EU aspirations. Since 2014, these aspirations have been underpinned by an Association Agreement, including DCFTA, with the EU. In June 2022, the European Council took a historic decision recognizing the European perspective of Moldova and granting it the status of EU candidate country. Tangible progress on the path of EU approximation could help strengthen the country’s political *stability* and reduce its geopolitical vulnerability. Moldova’s application to become an EU member, submitted on 3 March 2022 in the wake of Russia’s full-scale invasion of neighboring Ukraine, was another indication of the country’s commitment to democracy, the rule of law, human rights and fundamental freedoms.

In its Opinion on Moldova’s EU membership application, the European Commission outlined a number of recommendations for Moldova to implement, such as: ensuring the independence, integrity, efficiency, accountability and transparency of the judiciary and prosecution; fighting corruption at all levels; “de-oligarchisation” by eliminating the excessive influence of vested interests in economic, political and public life; strengthening the fight against organized crime; stepping up implementation of public administration reform to increase the capacity to deliver on reforms; enhancing the involvement of civil society in decision-making processes; and strengthening the protection of human rights, particularly of vulnerable groups.²

¹ *Parliamentary Assembly of the Council of Europe (PACE): The Honouring of obligations and commitments by the Republic of Moldova, Resolution 2484, 26 January 2023.*

² *European Commission: Opinion on the EU membership application by Moldova, Brussels, 17 June 2022.*

Russia's war on Ukraine has dramatically changed Moldova's geopolitical environment and created considerable challenges to the country's stability and security, also in view of its remaining geopolitical divisions. The war and the resulting large influx of Ukrainian refugees have also added to Moldova's growing economic and social pressures. Aggravated by record-high energy prices and high inflation, the worsening socio-economic situation risks eroding the popularity of the Moldovan pro-reform government and emboldening political opposition.

The deteriorated geopolitical context has raised fresh concerns about the risks to Moldova's stability linked to the Transnistrian conflict which remains unresolved since 1992, challenging the country's sovereignty and territorial integrity.

Free Elections and Representative Government

Free, fair and competitive elections

The Constitution of the Republic of Moldova provides citizens with the right to change their government through periodic elections based on universal suffrage. During the previous country strategy period Moldova held presidential and two parliamentary elections.

The last parliamentary election took place in July 2021, on the basis of a fully proportional electoral system (following the change of the system in 2019 back from a mixed one to address concerns previously raised by relevant international bodies). It was an early election, after a period of political instability following the February 2019 parliamentary election. The OSCE/ODIHR-led International Election Observation Mission (IEOM), while pointing to certain shortcomings related to the legal framework, campaign finance oversight and impartiality of the Central Election Commission, concluded that the elections were "well administered, competitive, and fundamental freedoms were largely respected."³

The last presidential election was held in two rounds in November 2020. The OSCE/ODIHR-led international observers assessed the election as "competitive" and concluded that "voters had a choice between political alternatives and the fundamental freedoms of assembly and expression continued to be respected." The IEOM, however, noted that "negative and divisive campaigning and polarising media coverage marred the campaign environment and degraded the quality of information available to voters."⁴

Separation of powers and effective checks and balances

³ OSCE/ODIHR Election Observation Mission: Republic of Moldova, Parliamentary Elections, 21 July 2021, Final Report, Warsaw, 22 December 2021, p. 1.

⁴ OSCE/ODIHR Election Observation Mission: Republic of Moldova, Presidential Election, 1 and 15 November 2020, Final Report, Warsaw, 26 February 2021, p. 1.

Moldova is a parliamentary republic, with executive powers exercised by the government headed by the prime minister. Legislative power is vested in the 101-member National Assembly (parliament). The president is the head of state whose constitutional powers are limited but whose public legitimacy is high due to the direct vote. At present, the government and president are political allies which makes cohabitation smooth.

Effective power to govern of elected officials

Moldova has put in place institutional and legal arrangements for elected officials to exercise their power to govern. Vested interests long had excessive influence over the country's political life and decision-making, raising concern by international monitoring bodies over the accountability of elected officials. Moldova's current authorities are committed to breaking the relationship between business and political elites.

Civil society, Media and Participation

Scale and independence of civil society

Moldova's civil society has continued to grow in scale. The number of registered CSOs has reached over 13,000, however less than a third of these organisations are believed to be active. The legal environment governing the CSO sector has improved following the adoption in June 2020, in consultation with civil society, of the long-pending law on non-commercial organisations. The law simplifies the registration procedure and eliminates the registration fee and generally limits arbitrary interference by authorities in the activity of CSOs. As to their financial viability, CSOs continue to rely mainly on foreign grants. Donations from local individuals and companies through the 2% income tax designation mechanism have decreased, partly due to the Covid-19 pandemic and the worsening economic situation. The pandemic restrictions also imposed limitations on some of CSOs' activities.⁵

Independence and pluralism of media operating without censorship

The existing legal framework is largely in line with international standards and guarantees media freedom. Moldova's media landscape is diverse. While the circulation of print media is decreasing, a large number of broadcasters and a growing number of online media outlets are active in the country. They, however, share a limited advertising market, which undermines the sustainability of media outlets and their independence. Moldova's ranking on the 2021 World Press Freedom Index improved by two places (89th among 180 countries) but remained low due to concentration of media ownership, monopolisation of the advertising market, and lack of editorial independence and control of media institutions by economic and political groups among other reasons. The political affiliation of major media outlets reduces pluralism and influences the agenda of public discourse.⁶

⁵ EU: Association implementation report on the Republic of Moldova, Brussels, 13 October 2021, p.6.

⁶ Ibid, p.5; OSCE/ODIHR Election Observation Mission: Parliamentary Elections, 21 July 2021, Final Report, pp. 17-18.

Multiple channels of civic and political participation

Moldovan citizens generally enjoy multiple channels of civic and political participation. However, CSOs continue to call for increased transparency in decision-making by public authorities. Cooperation between CSOs and public authorities remains sporadic and largely not institutionalised. The involvement of civil society in decision-making at all levels needs to be enhanced.⁷

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice. Opposition parties are able to campaign freely and oppose government initiatives. 20 political parties and two electoral blocs contested in the 2021 parliamentary elections, providing voters with a broad range of political alternatives. Three, including two opposition, parties and blocs are represented in the current parliament.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The Constitutional Court played a critical role in decisive political moments in 2020-2021. The right to a fair trial and freedom from arbitrary arrest or detention is envisaged in the legislation, although the lack of independence of the judiciary and prosecution has undermined this right.

Independence of the judiciary

While the Constitution provides for its independence, the judiciary has continued to be faced with allegations of integrity issues and influence of vested political and business interests. None of the major culprits of the 2014 bank fraud are currently behind bars and the assets lost in the fraud have not been recovered. During most of the previous country strategy period, reforms of the justice sector stagnated although key laws regulating judiciary went through major overhauls in 2020. There was some progress when the parliament adopted in November 2020 a new Strategy for ensuring the independence and integrity of the justice sector 2021-2024. Nevertheless, judicial reform, including the composition of the Superior Council of Magistracy, remained an important challenge.⁸ Moldova's current authorities have pledged commitment to strengthening the independence, integrity, efficiency, and accountability of the judiciary and have launched a comprehensive justice system reform, aimed at regaining public trust in the judiciary. A special Commission on the evaluation of the activity of judges and prosecutors (so-

⁷ EU: Association implementation report, p. 6.

⁸ EU: Association implementation report, pp. 1, 8-9.

called vetting commission) was established. The process of reform is ongoing. In its recent opinion, the Venice Commission welcomed the proposed legislative amendments related to the judiciary and made a number of recommendations to improve them further.⁹

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. In practice, however, the effective administration of justice, in particular the independence, effectiveness, transparency and accountability of the judiciary and the functioning of prosecution, need to be enhanced. Amendments to the law on the public prosecution service were adopted in August 2021, reorganising the Superior Council of Prosecutors and introducing new mechanisms of accountability of the prosecutor general.¹⁰ In its latest opinion, the Venice Commission concluded that the amendments represent a significant improvement and offered further recommendations.¹¹

Effective policies and institutions to prevent corruption

Endemic corruption had long been a serious issue in Moldova. Although the country had made efforts in the fight against corruption and its anti-corruption policy was up-to-date, the recent OECD monitoring report identified a number of weaknesses, including the investigation and prosecution of high-level corruption.¹² The last GRECO report, adopted in September 2020, found that the level of compliance on the prevention of corruption among MPs, judges and prosecutors was “globally unsatisfactory” citing the repeated failure to address political corruption.¹³ Moldova’s current authorities, which came to power on an anti-corruption platform, have shown a real willingness to implement anti-corruption reforms. Several high-level anti-corruption criminal cases have been launched, while key provisions of the law on illicit enrichment were strengthened. On its 2022 Corruption Perception Index, Transparency International ranks Moldova 91st out of 180 countries, which is a significant improvement of 24 positions compared to 2020.¹⁴

Civil and Political Rights

⁹ Venice Commission and the Directorate General of Human Rights and Rule of Law of the CoE: *Joint Opinion on the draft law on amending some normative acts (judiciary)*, Venice 17-18 June 2022.

¹⁰ EU: *Association report*, p.10.

¹¹ Venice Commission: *Opinion on draft amendments to law No 3/2016 on the public prosecution service*, Venice 17-18 June 2022.

¹² OECD: *Anti-corruption reforms in Moldova: Pilot 5th round of monitoring under the OECD Istanbul anti-corruption action plan*, 2022.

¹³ GRECO: *2nd compliance report, 4th evaluation round, Corruption prevention in respect of members of parliament, judges and prosecutors*, Strasbourg, 13 October 2020; EU: *Association implementation report*, p.10.

¹⁴ Transparency International: *Corruption Perception Index 2022*.

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

As member of the UN, the Council of Europe and the OSCE and being an EU candidate country, Moldova is a party to the majority of core international human rights treaties and has developed a strong national legal basis for the protection of civil and political rights. Fundamental freedoms are largely respected. Following the 2nd cycle review in the framework of the UN Universal Periodic Review (UPR) adopted in 2017, Moldova developed a comprehensive National human rights action plan for 2018-2022 and implemented fully 138 and partially 45 out of 194 accepted UPR recommendations. In 2018, the country established the National human rights council, consisting of representatives of public authorities and civil society, as well as the Permanent Secretariat for human rights. The latest assessment of the track record of Moldova in the area of human rights in the framework of the UPR 3rd cycle review was held in 2022. Moldova has accepted 186 out of 209 recommendations, noting 23.¹⁵

Political inclusiveness for women, ethnic and other minorities

Moldova is party to relevant international human rights treaties and has a developed national legal framework against discrimination. In January 2022, the country ratified the Council of Europe Convention on preventing and combating violence against women and domestic violence (Istanbul Convention).

Moldova is currently the only country in Europe where both the president and PM are women. 47% of all candidates registered for the 2021 parliamentary elections were women, and 40 women were elected – nearly 40% of the current parliament, a notable increase in the number of women MPs compared to the previous parliament (which had less than 25% female MPs). The overall 40% gender quota for party candidate lists, first applied in the 2019 parliamentary elections, was further strengthened in August 2019 by introducing a placement requirement that at least four out of every 10 candidates on the lists must be of the opposite gender.¹⁶ Nevertheless, the UN Committee on the Elimination of Discrimination against Women remains concerned about the high prevalence of gender-based violence against women.¹⁷ Women continue to face gender inequality on the labour market, including a gender pay gap. Hate speech mainly targeting women and LGBTI persons remains an issue of concern.¹⁸

¹⁵ UN Human Rights Council: *Universal Periodic Review, Republic of Moldova, Report of the Working Group, 14 June 2022.*

¹⁶ OSCE/ODIHR Election Observation Mission: *Parliamentary Elections, 21 July 2021, Final Report, pp. 1, 6-7.*

¹⁷ UN Human Rights Council: *Working Group on the Universal Periodic Review, Compilation on the Republic of Moldova, 10 November 2021, p.9.*

¹⁸ EU: *Association implementation report, p.7.*

Moldova is a multi-ethnic society. According to the 2014 census, about a quarter of the Moldovan population identified themselves as belonging to a national minority. Candidates from national minorities were included in the electoral lists of some parties and blocs, and led at least two party lists at the last parliamentary elections. At the same time, there is no proactive strategy or special measures to promote national minority political participation.¹⁹ With regard to the relationship between the central government and the Autonomous Territorial Unit (ATU) of Gagauzia, a package of laws was adopted in December 2020, however, for the laws to become effective, further amendments to the law on the special status of Gagauzia would need to be adopted.²⁰

Freedom from harassment, intimidation and torture

In its latest report, the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) noted the tangible progress achieved by Moldova in several areas, although regretted that several of its long-standing recommendations remained unaddressed, in particular the persistence of a prison sub-culture and the low staffing levels in prisons.²¹ The government of Moldova expressed its readiness “to comply, as far as possible, with the comments contained in the CPT report” and to take all necessary measures to remedy deficiencies.²²

¹⁹ OSCE/ODIHR Election Observation Mission: Parliamentary Elections, 21 July 2021, Final Report, pp. 16-17.

²⁰ EU: Association implementation report, p.6.

²¹ Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT): Visit to Moldova from 28 January to 7 February 2020, published on 15 September 2020.

²² Response of the Government of the Republic of Moldova to the report of the CPT on its visit to Moldova, 14 April 2021.