

Moldova

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Moldova	
Sanctions:	None
FATF list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering Assessment Weakness in Government Legislation to combat Money Laundering World Governance Indicators (Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: vegetables, fruits, grapes, grain, sugar beets, sunflower seed, tobacco; beef, milk; wine</p> <p>Industries: sugar, vegetable oil, food processing, agricultural machinery; foundry equipment, refrigerators and freezers, washing machines; hosiery, shoes, textiles</p> <p>Exports - commodities: foodstuffs, textiles, machinery</p> <p>Exports - partners: Russia 20.9%, Romania 19.8%, Italy 11.6%, Ukraine 6.6%, Turkey 6%, Germany 4.7% (2012)</p> <p>Imports - commodities: mineral products and fuel, machinery and equipment, chemicals, textiles</p>	
<p>Investment Restrictions:</p> <p>There are no economic or industrial strategies that have a discriminatory effect on foreign-owned investors in Moldova, and no limits on foreign ownership or control, except in the</p>	

right to purchase and sell agricultural and forest land, which is restricted to Moldovan citizens.

The Law on Entrepreneurship and Enterprises has a list of activities restricted solely to state enterprises, which includes, among others, human and medical research, manufacture of orders and medals, postal services (except express mail), sale and production of combat equipment and weapons, minting and real estate registration.

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Section 1 - Background

Part of Romania during the interwar period, Moldova was incorporated into the Soviet Union at the close of World War II. Although the country has been independent from the USSR since 1991, Russian forces have remained on Moldovan territory east of the Nistru River supporting a Transnistrian separatist region composed of a Slavic majority population (mostly Ukrainians and Russians), but with a sizeable ethnic Moldovan minority. One of the poorest nations in Europe, Moldova became the first former Soviet state to elect a communist, Vladimir VORONIN, as its president in 2001. VORONIN served as Moldova's president until he resigned in September 2009, following the opposition's gain of a narrow majority in July parliamentary elections and the Communist Party's (PCRM) subsequent inability to attract the three-fifths of parliamentary votes required to elect a president. Four Moldovan opposition parties formed a new coalition, the Alliance for European Integration (AEI), which has acted as Moldova's governing coalition since. Moldova experienced significant political uncertainty between 2009 and early 2012, holding three general elections and numerous presidential ballots in parliament, all of which failed to secure a president. Following November 2010 parliamentary elections, a reconstituted AEI-coalition consisting of three of the four original AEI parties formed a government, and in March 2012 was finally able to elect an independent as president.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Moldova is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Moldova was undertaken by the Financial Action Task Force (FATF) in 2012. According to that Evaluation, Moldova was deemed Compliant for 4 and Largely Compliant for 18 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 3 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2012):

In September 2010 the Republic of Moldova's authorities adopted a national strategy for prevention and combatin g of money laundering and financing of terrorism for 2010 - 2012 (the National Strategy). The authorities involved in the process of implementation of the National Strategy have set the main objectives for improving the AML/CFT system in the country: compliance with the relevant international standards, appropriate and viable legislation and efficient collaboration between law enforcement and supervision bodies in the area of AML/CFT. Some of the objectives were set as a result of recommendations issued by th e specialised international organisations, including the recommendations stated in the 3rd round evaluation report of MONEYVAL.

The AML/CFT Law has been modified due to a 2010 Constitutional Court decision, the main adjustment being related to the speci fic provisions on the reporting regime and on the organisation of the Office for Preventing and Combating Money Laundering (OPFML) within the structure of the Centre for Combating Economic Crimes and Corruption (CCECC).

The Republic of Moldova has develop ed the criminal legislation since the 3rd round evaluation by bringing the money laundering offence more in line with the Vienna and Palermo Conventions. The money laundering offence, which was reformulated according to this standard, is generally understo od and actually interpreted by practitioners so as to cover the laundering by the author of the predicate offence (self - laundering). Such laundering activities have actually been subject to prosecution in a number of criminal cases. Nonetheless, the contin ued judicial insistence on a prior conviction for the predicate offence as a precondition of prosecuting stand - alone money laundering is a major deficiency.

The terrorism financing offence now addresses the general concept of financing of terrorist organisations and individual terrorists. It was also positively noted that the Moldovan criminal substantive law appears to cover all offences within the scope of the nine treaties listed in the Annex to the TF convention. There has not been any investigation or prosecution for TF offences.

The structural characteristics of the confiscation and provisional measures regime in the Republic of Moldova remained largely the same since the previous round of evaluation. The fundamental principles of the constitution are thus unchanged and so is the structure by which the general rules of confiscation are provided in the Criminal Code (CC). Sequestration (i.e. seizure of goods) as the main provisional measure is prescribed in the Criminal Procedure Code (CP C). Report on 4th assessment visit of the Republic of Moldova

As far as the freezing of assets of designated persons and entities pursuant to SR.III is concerned, the evaluation team noted some fundamental deficiencies in the domestic legislation. On the positive side, there is some legislation in place that regulates the publication of the respective lists as well as the possibility to elaborate national lists in this respect. The AML/CFT Law also requires, at least implicitly, the reporting entities to postpone transactions that involve assets of designated persons and entities. Notwithstanding all these measures, there is no specific legislation in the Republic of Moldova to provide for the actual freezing of these assets beyond the period of postponement (i.e. 5 days) nor are there any procedural rules for delisting, un-freezing etc. This in itself raises questions as to the meaning and purpose of the entire regime.

The Republic of Moldova's FIU (OPFML) is placed within the administrative structure and premises of the CCECC. The functions and responsibilities of the FIU, are set out in AML/CFT Law, and appear to sufficiently cover the core requirements set out in Recommendation 26. On a legislative level, the issue of the independence and autonomy of the FIU was resolved with the enactment of a series of amendments to AML/CFT Law brought into force in April 2011. Notwithstanding the fact that the OPFML continues to be situated within the operational structure of the CCECC, the AML/CFT Law now provides for the establishment of the OPFML as an independent subdivision with powers and functions which are clearly distinct from those of the CCECC.

There are various law enforcement authorities which are involved in the investigation of ML/FT cases. The authority which is mainly responsible for receiving disseminations by the OPFML is the Criminal Investigation Directorate (CID) within the CCECC. Although this Directorate has dedicated two sub-Directorates to deal with ML/FT cases, the level of knowledge related to the financial aspect of investigations, asset identification and tracing does not appear to be very comprehensive. Additionally, in spite of a number of steps taken (MoUs signed, joint working groups, etc.) there appears to be a lack of co-operation and co-ordination between the various law enforcement authorities in order to properly pursue and investigate ML/FT cases.

As evident from the statistical data provided, suspicious transaction reports (STRs) are to a very large extent reported by banks. This indicates a serious lack of awareness by some of the reporting entities, especially in the designated non-financial businesses and professions (DNFBP) sector.

The Republic of Moldova has taken significant steps in order to improve the AML/CFT legal and regulatory framework, as well as the supervisory system. The new AML legislation introduced the risk - based approach. The preventive measures are established by the AML/CFT Law, the Law on Financial Institutions, the Law on Foreign Exchange Regulation and various other sector specific Laws and regulations which provide a comprehensive legal framework including customer due diligence (CDD) and record keeping requirements.

The financial supervision is undertaken by the National Bank of Moldova (NBM) for banks and foreign exchange entities. The National Commission on Financial Market (NCFM) was established in 2007 and is the supervisory authority for the non - banking financial market. Both the NBM and the NCFM apply on - site and off - site supervisory measures, although their effectiveness was not fully demonstrated.

The Republic of Moldova has made a number of improvements in the legal framework in relation to the DNFBP. By amending the AML/CFT Law, the Moldovan authorities have now listed all the DNFBP as reporting entities, including independent accountants. Report on 4th assessment visit of the Republic of Moldova

The AML/CFT Law provides the list of the authorities empowered to supervise the DNFBP . However, there is no specific provision to establish a clear link between every specific category of DNFBP and the specific authority empowered to supervise it. The allocation of supervisory powers over a specific DNFBP should be more clearly stated. The effective supervision over the DNFBP was not demonstrated.

The use of shell or "ghost" companies for money laundering remains an issue despite the current company registration rules.

Legal provisions for providing mutual legal assistance are laid down in domestic law, bilateral and multilateral treaties and apply both to ML and FT. According to the AML/CFT Law, the Moldovan judicial authorities are able to co - operate without concluding a treaty, since the national legislation allows co - operation on the basis of reciprocity and, to some extent, even in absence of it

US Department of State Money Laundering assessment (INCSR)

Moldova was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Moldova is not a regional financial center. The economy is largely cash-based and remains highly vulnerable to money laundering activities. The Government of Moldova monitors money flows throughout the country, but does not exercise control over the breakaway region of Transnistria. Transnistrian authorities do not adhere to Moldovan financial controls and maintain a banking system independent of, and not licensed by, the National Bank of Moldova (NBM). The breakaway region of Transnistria is highly susceptible to money

laundering schemes. Due to the Moldova government's inability to enforce the laws on this territory, Transnistrian banking and financial laws and regulations are not in compliance with accepted international AML/CFT norms.

Criminal proceeds laundered in Moldova derive substantially from tax evasion, contraband smuggling, fraud, and corruption. Money laundering occurs within the banking system, exchange houses, and the offshore financial centers in Transnistria. Currently, 11 banks are operating in Moldova. Neither offshore banks nor shell companies are permitted; despite this ban, shell companies continue to be used to launder illicit proceeds. Internet gaming sites exist, although no statistics are available on the number of sites in operation. Internet gaming comes under the same set of regulations as domestic casinos. Enforcement of the regulations is sporadic.

In late November 2014, an estimated \$1 billion was stripped from the assets of three large banks in Moldova, which has led to their liquidation. The theft is being investigated by Moldova's National Anticorruption Center (NAC) in conjunction with some outside assistance. However, the theft appears politically connected and the investigation is lingering, casting doubt on the government's ability and commitment to identify and prosecute the perpetrators.

Moldova contains seven free trade zones (FTZs), some of which are infrequently used. Reportedly, goods from abroad are sometimes imported into the FTZ and then resold and exported to other countries with documentation indicating Moldovan origin. Companies operating in FTZs are subject to inspections, controls, and investigations by inspectors from the Customs Service and the General Police Inspectorate.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

KYC covered entities: Banks, currency exchange offices, investment funds, investment or fiduciary service providers and management companies, deposit companies, fiduciary companies, securities dealers, stock exchange companies, brokers, insurance and reinsurance companies, company formation agents and ownership registries, gaming and lottery organizers and institutions (including internet casinos), real estate agents, dealers of precious metals or gems, auditors, accountants and financial consultants, lawyers, notaries, and organizations which provide postal and telephone mandate exchange or value transfer services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 557,482: January – October, 2015

Number of CTRs received and time frame: 1,297,313: January – October, 2015

STR covered entities: Banks, currency exchange offices, investment funds, investment or fiduciary service providers and management companies, deposit companies, fiduciary companies, securities dealers, stock exchange companies, brokers, insurance and reinsurance companies, company formation agents and ownership registries, gaming and lottery organizers and institutions (including internet casinos), real estate agents, dealers of precious metals or gems, auditors, accountants and financial consultants, lawyers, notaries, and organizations that provide postal and telephone mandate exchange or value transfer services

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 29: January – October, 2015

Convictions: 2: January – October, 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Moldova is a member of the Council of Europe Committee of Experts on the Evaluation of Anti- Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Moldova continues to make progress in instituting a legal framework for combating money laundering that is consistent with international standards. During the period of January – October, 2015, the Office for Prevention and Control of Money Laundering, Moldova’s financial intelligence unit (FIU), subjected 549 transactions to additional complex analysis. Moldovan law enforcement initiated 29 money laundering-related criminal investigations. Various law enforcement authorities are involved in AML/CFT investigations, but responsibility rests primarily with the NAC’s Criminal Investigation Directorate and the Anticorruption Prosecution’s AML Section. The level of knowledge related to the financial aspects of investigations and asset identification and tracing does not appear to be very comprehensive. There is also a lack of cooperation and coordination among the various law enforcement authorities that pursue financial crimes.

Expert evaluation has shown that laws need to be changed to increase civil monetary penalties, and that enforcement is not effective. Individuals charged tend not to be significant players. The FIU receives far too many reports from reporting entities to monitor them properly.

The use of shell companies in money laundering schemes continues, and it appears neither the current company registration rules nor corporate criminal liability have proved to be sufficient to entirely overcome this phenomenon. A lack of awareness by some of the reporting entities in the designated non-financial businesses and professions (DNFBP) sector is reflected in the continued minimal reporting from this sector.

According to the FIU, the primary AML/CFT challenge that Moldova encountered in 2015 was the use of nominal shareholders in bank ownership (holders of less than 5 percent of shares in order to avoid NBM authorization). During banks’ board meetings these shareholders act in a

concerted manner, which often results in subsequent fraudulent bank management and issuance of preferential loans to companies associated with the beneficiaries of shares; disbursement of payments to the effective beneficiaries' associated companies directly from banks' correspondent accounts; unlimited access of offshore companies in the domestic banking system; offshore companies opening bank accounts and initiating transactions through intermediaries (generally from Ukraine and Russia); operational risks related to the issuance of non-performing loans that may affect the stability of the bank or loans to companies with suspicious activities whose founders are intermediaries from abovementioned countries; submission of erroneous data and reports to the NBM in order to present a stable financial situation; and local banks performing interchange placements with sometimes unclear transaction destinations or with poorly rated foreign banks.

Moldova should continue to review and amend the criminal procedure code to institute non-conviction based confiscation and to permit special investigative techniques to be applied to a wider range of offenses associated with money laundering and terrorism financing. Additionally, Moldova should criminalize tipping off and take steps to raise the awareness of the DNFBP sector regarding AML/CFT reporting requirements.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Moldova does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Moldova is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Moldova is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2015

Moldova serves as a transit point for drugs destined for Western Europe, and small quantities of cannabis and opium poppy are cultivated within its borders. Moldova's proximity to Europe, limited law enforcement capacity, and lack of control of the separatist Transnistria region complicate drug control efforts. Counternarcotic activities are hampered by insufficient specialized police, inadequate training, and a lack of funding. The government has taken steps to address the situation in the context of ongoing police reform and wants to increase and reorganize specialized anti-drug units.

Moldovan authorities registered 957 drug-related cases over the first nine months of 2014, a 15 percent increase over the same period in 2013, with approximately 88 percent proceeding to prosecution. This increase can be largely attributed to the government's decision in 2014 to ban 30 new psychoactive substances and prescription drugs, mostly synthetic cannabinoids. Use of synthetic cannabinoids and cathinones represents a growing domestic drug problem, and the cannabinoid popularly known as "spice" and similar compounds are increasingly available. The government's decision to add these substances to the official list of narcotic and psychotropic substances represented an improvement in Moldovan drug control policy in 2014.

During the reporting period, Moldovan authorities dismantled 7 drug trafficking networks consisting of 40 persons. In July 2014, the Republic of Georgia seized 2,790 kilograms of liquid heroin in Batumi. According to Georgian authorities, the heroin was destined to be shipped across the Black Sea to Moldova and distributed from there to Western Europe.

Police, customs, and border officials continued to cooperate on counternarcotic activities in 2014. As in previous years, combating cultivation of cannabis and poppy was the most common challenge facing anti-drug units. The lack of forensic capabilities and sample narcotic substances continues to hamper the examination of newly-emerging synthetic drugs.

The National Anti-Drug Commission coordinates interagency cooperation among governmental institutions and liaises with civil society on matters relating to drug policy. The Moldovan government does not condone or promote drug trafficking. However, corruption, including drug-related corruption, remains a major problem in Moldova.

There is no bilateral extradition or mutual legal assistance treaty between Moldova and the United States. Regardless, Moldovan and U.S. authorities cooperated on criminal cases connected with transnational organized crime in 2014. The Moldovan constitution does not permit extradition of its nationals.

US State Dept Trafficking in Persons Report 2014 (introduction):

Moldova is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Moldova is primarily a source country for men, women, and children subjected to sex trafficking and forced labor. Moldovan victims are often subjected to sex trafficking and forced labor within Moldova and in Russia, Turkey, the "Turkish Republic of Northern Cyprus," Greece, United Arab Emirates, Kosovo, Kazakhstan, Lebanon, Italy, Spain, Ireland, Poland, Switzerland, Israel, Thailand, Germany, Denmark, and Czech Republic. Women and minors are subjected to sex trafficking in Moldova through brothels, saunas, and massage parlors. Moldovan men are subjected to forced labor in agriculture and construction in Ukraine and Russia. Moldovan women are subjected to forced labor in agriculture in Ukraine. Traffickers used fraud, debt bondage, and withholding of documents and wages to compel victims into sex trafficking and forced labor in other countries. Boys were subjected to sex trafficking in Moldova, and girls were subjected to sex trafficking both within the country and transnationally. Foreign tourists, including those from Norway, Italy, Germany, Sweden, Denmark, Thailand, Australia, Israel, and the United States, subjected Moldovan children to commercial sexual exploitation, using the Internet as a tool for recruitment and exploitation. The separatist Transnistria region is outside the central government's control and remained a source for victims of both sex trafficking and forced labor.

The Government of Moldova does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government's anti-trafficking center continued to implement major reforms that have improved the response to trafficking; added two prosecutors to the anti-trafficking section of the Prosecutor General's Office; and made permanent the secretariat for the national committee for combating trafficking in persons. However, corruption has increased within the judicial sector, including the Supreme Court; shelters had little security, and victims and witnesses participating in trial were threatened. Court hearings were frequently delayed and prosecutors did not maintain regular contact with the victims.

US State Dept Terrorism Report 2009

Moldova continued to work on implementation of its UN obligations related to terrorist financing. The Government of Moldova welcomed information regarding terrorist financing from the U.S. government and other bodies, and actively applied such information in its monitoring efforts through its Centre for Combating Economic Crimes and Corruption.

A specific section in the Prosecutor General's Office handles terrorism-related cases. The primary investigative body in counterterrorism cases is the Information and Security Service, Moldova's intelligence service. In 2006, SIS was given the governmental lead to establish and manage a special counterterrorism centre. In 2009, staffing and funding were minimal, as were its activities. The U.S. Embassy's law enforcement assistance programs aid Moldovan efforts to impede the ability of terrorists and other citizens without proper documents to cross national borders. The programs also facilitated automation at ports of entry to ensure greater security of passports and travel documents.

The separatist-controlled Transnistria region of Moldova remained a potential area of concern. Moldovan law enforcement worked hard to track the whereabouts and activities of individuals moving in and out of Transnistria, an area where central government police and security services were not able to operate. Some of the individuals moving in and out of Transnistria were foreign students who remained in Moldova illegally, as the government lacked the resources to deport them when their visas expired. Corruption was endemic, and it was easy to obtain false travel documents in both Transnistria and Moldova.

International Sanctions

There are EU restrictions currently in force against this country in respect of persons responsible for the campaign against Latin-script schools in the Transnistrian region. These are regularly reviewed.

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	17

US State Department

Moldova is making efforts to adopt European and international standards to combat corruption and organized crime. In 2007, Moldova ratified the United Nations Convention against Corruption, subsequently adopting amendments to its domestic anti-corruption legislation. In 2008, the GOM developed and enacted a series of companion laws designed to address current legislative gaps such as the Law on Preventing and Combating Corruption, the Law on Conflict of Interests and the Law on the Code of Conduct for Public Servants. In December 2011, the Moldovan Parliament passed the Law on the National Integrity Commission, which took effect in March 2012. The National Integrity Commission is designed to become the sole public authority responsible for the regulation and implementation of policies concerning conflicts of interest in the Moldovan public service. It is also in charge of scrutinizing the disclosure of assets by judges, prosecutors and other public officials. Since the law's entry into force, the Moldovan Parliament managed to elect the Commission's Chairman and members. However, the Commission still lacks administrative personnel and other resources to function properly.

The Center for Combating Economic Crimes and Corruption (CCECC) was also reorganized in 2012 into the National Anticorruption Center (NAC). According to law, the new NAC will focus solely on investigating public corruption and bribery crimes, and will be subordinated to the Parliament (CCECC was under the Government). For the first time, the GOM held an open competition for the position of NAC Director, with all milestones of the process being broadcast on multiple TV stations. In October, Parliament passed several amendments to the Law on Status of Judges that stripped judges of their immunity if under investigation or being for corruption crimes. However, the Supreme Court of Justice challenged the constitutionality of these amendments at the Constitutional Court. In September 2013, the Constitutional Court partially endorsed the constitutionality of challenged provisions. The Court ruled that judges can be prosecuted for corruption crimes without the Superior Council of Magistrates' agreement. Instead the Court upheld the provision guaranteeing that judges will not be subjected to search and arrest procedures prior to the Council's agreement.

Moldova's Criminal Code includes articles on public and private sector corruption, combating economic crimes, criminal responsibility of public officials, active and passive corruption and trade of influence. These additions put the legislation more in line with

international, anti-bribery standards by criminalizing the act of offering a bribe. Under this definition, the act of promising, offering or giving a bribe to a public official is a crime.

According to the Moldovan Criminal Code, offering a bribe is regulated by Article 325 entitled "Active Corruption." Penalties for offering a bribe include prison terms up to 12 years and fines of up to 60,000 MDL (approximately \$4,500). The minimum penalty for offering a bribe is now imprisonment for up to five years with a fine of 20,000 MDL (approximately \$1,500) to 60,000 MDL. If committed by two or more persons or on a large scale, the offering of a bribe is punishable with imprisonment from three to seven years with a fine of 20,000 MDL to 60,000 MDL. The maximum penalty for offering a bribe in its aggravated forms, on an especially large scale, in the interest of an organized criminal group or criminal organization is punishable with imprisonment from six to twelve years with a fine from 20,000 MDL to 60,000 MDL. For legal entities, the lowest fine is 40,000 MDL (approximately \$3,000) and the highest is 200,000 MDL (approximately \$15,000).

Accepting a bribe is regulated by the Moldovan Criminal Code under Article 324 - "Passive Corruption." Penalties for accepting a bribe include prison terms up to 15 years, and fines of up to 60,000 MDL (approximately \$4,500), the deprivation of the right to hold certain positions or practice certain activities for two to five years. Parliament reviewed and passed amendments aimed at toughening the penalties for corruption statutes. The highest pecuniary penalty for corruption crimes is 200,000 MDL (approximately \$15,000). Likewise, if sentenced for passive corruption, public officials will be banned to re-enter the public service for up to 10 years.

In November 2012 as part of the Justice Sector Reform Action Plan, the Ministry of Justice drafted a series of amendments in the anti-corruption area. This package of anti-corruption amendments include: new legislation on integrity testing of justice sector officials, the introduction of extended confiscation and illicit enrichment statutes in the Moldovan Criminal Code as per the United Nations Convention Against Corruption (UNCAC). The new Criminal Code statutes and new laws on integrity testing of public officials and disciplinary liability law for judges were passed in late 2013. Parliament also passed the law on gradual salary adjustments which provides for a scheduled increase of judges' salaries until 2016.

Moldova is not a signatory of the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery. However, Moldova is part of two regional anti-corruption initiatives: the Stability Pact Anti-Corruption Initiative for South East Europe (SPAI) and the Group of States against Corruption (GRECO) of the Council of Europe. Moldova cooperates closely with the OECD through SPAI and with GRECO, especially on country evaluations. In 1999, Moldova signed the Council of Europe's Criminal Law Convention on Corruption and Civil Law Convention on Corruption. Moldova ratified both conventions in 2003.

In the past several years, the U.S. embassy received reports from foreign investors of serious problems with corruption and bribery. For example, when a foreign investor discovered that he had underpaid his taxes and wished to remedy the situation, the tax inspector assigned to the company attempted to extort money. The tax service later lauded the investor for his self-reporting and negotiated a reduced payment. The embassy has also received reports of "informal" hostile takeovers of profitable businesses. In these cases, business owners were approached by politically-connected individuals who wished to acquire part of the

businesses. When business owners refused, they were soon forced to close via non-transparent measures.

Despite the established anti-corruption framework, the number of cases involving prosecution of corruption did not meet international expectations, and enforcement of existing legislation is deemed insufficient. The dismissal, in April 2013, of the government for corruption allegations worsened the Moldovan society's perception of corruption. Moldova dropped to 102th place in the 2013 Transparency International Corruption Perception Index (CPI). Moreover, the TI Global Corruption Barometer shows (GCB) that 71% of Moldovans think that corruption is a very serious problem and 60% think that the Government's in fighting corruption are ineffective. At the same time, according to the GCB, 80 % of Moldovan citizens believe that the most corrupt institution is the judiciary (80%), followed by police (76%) and political parties (75%).

Corruption and Government Transparency - Report by Global Security

Political Climate

While corruption traditionally has been a large problem in Moldova, there has been an increasing focus on anti-corruption measures in recent years. Nonetheless, the European Commission reports in a Country Progress Report 2012 press release that the observed progress in fighting corruption is still very limited. Freedom House 2012 reports that Moldova's constitution provides adequate protections for judiciary independency. However, a high level of corruption, political influence and poorly-enforced judicial decisions continue to present serious problems due to underfunded judicial system. In addition, centralisation of power remains a serious issue that undermines the development of Moldovan local administrations. In a significant effort towards decentralisation, Parliament adopted a new legislation on administrative decentralisation at the end of 2006, and in 2011, the government passed the National Decentralisation Strategy. According to Freedom House 2012, the implementation of the strategy, if carried out as envisioned, should significantly increase local officials' decision-making autonomy and independent access to resources. However, despite the passage of relevant anti-corruption legislation and the establishment of a special anti-corruption agency, the Centre for Combating Economic Crimes and Corruption (CCECC), the government continues to lack transparency and accountability and the CCECC often favours the government's interests over corruption investigations.

Government and business elites are strongly interlaced in Moldova, with key politicians being heavily involved in international business. According to the Bertelsmann Foundation 2012, members of the political elite 'capture' the main economic activities in the country and have monopolised strategic industries, such as power, banking, telecommunications, and agriculture. A widening gap between a small group of individuals with strong political ties and the much larger impoverished majority of the population severely damages Moldova's social fabric and hampers the domestic reform process. According to Transparency International Moldova 2012, Moldovans are highly affected by corruption. For example, the surveyed households perceive corruption to be among the most problematic factors in their daily lives, only surpassed by poverty and unemployment. Moreover, the majority of responding households perceive the level of corruption to have either remained the same or increased, when compared with 2008. Finally, both Moldovan households and

businesspeople perceive lack of proper punishment, lack of political will to tackle corruption, greed, and poor culture to be the main causes for corruption in Moldova.

In Transparency International's Global Corruption Barometer 2010/2011, 37% of the surveyed Moldovan households report having paid a bribe between 2009 and 2010, and more than 46% perceive the government's efforts to fight corruption as 'ineffective', while only 16% assess the government's efforts as 'effective'. Moreover, nearly one-third of the respondents believe that political parties are 'extremely' affected by corruption. Given a political environment rife with corruption, business executives surveyed in the World Economic Forum Global Competitiveness Report 2012-2013 reveal that the level of public trust in politicians is low. According to the GRECO Evaluation Report 2013 on Moldova, the authorities lack transparency in the level of disclosure related to party funding and in the supervision of political finances. According to the Bertelsmann Foundation 2012, the fact that corruption remains endemic in Moldova's state institutions illustrates improper implementation of the anti-corruption initiatives adopted by the government. For example, many high-ranking state officials, who are required by law to make their income public, fail to do so for years without repercussions.

Business and Corruption

Moldova, grouped among the poorest countries in Europe, continues to advance towards developing a stronger economy, reforming a cumbersome regulatory environment, cutting red tape, combating corruption, and adopting reforms aimed at improving the business climate. Still, according to the US Department of State 2013, although the government has been implementing a number of policies aimed at combating corruption and improving the business climate, companies continue to cite corruption as a significant constraint on their business operations in the country. Accordingly, bureaucratic procedures are not always transparent and red tape often makes processing registrations and ownerships long, costly, and burdensome. In addition, discretionary decisions by state officials provide room for corruption. Despite Moldova's progress in economic reform, such as liberalisation of most prices and elimination of subsidies on many basic consumer goods, the country's endemic corruption, government interference in economic affairs, inconsistent application of laws and regulations, and lack of impartiality of the courts remain the most pressing issues and discourage greater foreign investment inflows.

Business surveys generally indicate that corruption in Moldova is a major obstacle for conducting business in the country. For instance, in the World Economic Forum Global Competitiveness Report 2012-2013, companies consider corruption as the greatest constraint to business operations, and the occurrence of irregular payments and bribes as fairly common. The perception of corruption is also emphasised by the fact that a large number of the companies surveyed by Transparency International Moldova 2012 identify corruption as one of the largest impediments to Moldova's business development. In the same survey, almost 42% of the surveyed businesspeople believe that corruption has increased in 2011. According to Transparency International's Global Corruption Barometer 2010/2011, corruption within the private sector is perceived to be widespread, with a quarter of the surveyed households evaluating it as 'extremely corrupt'

The Global Competitiveness Report 2012-2013 reveals that Moldova performs poorly in relation to the ethical behaviour of companies in interactions with public officials, politicians

and other companies. According to the report, public funds are fairly commonly diverted to companies, individuals, or groups due to corruption. Companies should take note that demands for bribes and facilitation payments are commonly used when operating in Moldova. For example, according to Transparency International Moldova 2012, the total amount of bribes paid by businesses in 2012 increased significantly compared to 2008. The main payments were paid to the customs service, health care services, the police, and fiscal inspectors. Therefore, companies are recommended to develop, implement and strengthen integrity systems and to conduct extensive due diligence when planning to invest or when already doing business in Moldova. In addition, companies are also recommended to use a specialised public procurement due diligence tool in order to mitigate corruption risks related to public procurement in Moldova.

Regulatory Environment

In recent years, Moldova has been adopting reforms aimed at improving the regulatory environment of the country. However, pervasive corruption in the government's bureaucracy, the weak implementation of laws, and a cumbersome regulatory framework, foster a business environment that remains amongst the most challenging in the region. In order to reduce red tape and the opportunities for corruption to occur, a number of steps have been taken. For example, a 'one-window' approach has been implemented for company registration, which significantly reduces the number of documents and days necessary for company registration. Following this initiative, limited online company registration services were introduced in 2006 and 2007 (access a 2007 foreign investment company registration and licensing guide). Moreover, to make the licensing procedure more transparent, the Licensing Chamber was established by the government in 2002, which simplifies the process of business licensing and reduces the number of business activities that require licensing. In January 2009, an Electronic Information System of the Licensing Chamber (in Moldovan) was established, which seeks to reduce bureaucratic barriers for private companies. Furthermore, a number of government Internet portals have been launched to make regulatory processes more transparent. Nonetheless, according to Transparency International Moldova 2012, business executives cite the regulatory framework as a significant obstacle for business development in Moldova.

According to the World Economic Forum Global Competitiveness Report 2012-2013, the surveyed business executives perceive government administrative requirements to be quite burdensome, and that government policy-making is fairly opaque and that government officials usually favour well-connected companies and individuals when deciding on policies and contracts. Commercial regulations can be ambiguous and inconsistent, and the lack of transparency increases start-up and overall operational costs. According to Transparency International Moldova 2012, companies spend 11.1% of their time dealing with problems related to interactions with public servants in state institutions. This amount of time, however, is down from 22.4% in 2005. In addition, the US Department of State 2013 reports that government officials sometimes interfere in business decisions, or use governmental powers to exert pressure on companies for personal or political reasons. In December 2008, the government endorsed a draft law according to which, the Moldovan civil servants' suitability for the public function will be verified by the Service of Information and Security as a measure to prevent and combat corruption in public administration. In February 2009, this draft law was signed into the Law on Verification of Public Office Holders and Candidates for a Public Office (in Moldovan) by former President Voronin. However, it has been massively

criticised by the media and NGOs for being an attempt to legalise the increased interference of the Security Service in the affairs of public institutions, according to a 2009 article by Moldova Azi. There is no information available on the practical effects and consequences of this law.

The judicial system in Moldova remains weak, inefficient, and subject to political interference, and legal recourse does not guarantee citizens and companies an impartial ruling. In addition, business executives surveyed in the Global Competitiveness Report 2012-2013 report that the judiciary is not independent from political influences of members of government, citizens, or companies. Moldova accepts international arbitration of investment disputes between foreign investors and the state. By law, investment disputes can be solved through Moldovan courts or arbitration. Moldova is a signatory to the International Centre for the Settlement of Investment Disputes (ICSID) and the New York Convention 1958. Moldova is also a party to the Geneva European Convention on International Commercial Arbitration, and the Paris Agreement relating to the application of the European Convention on International Commercial Arbitration. Access the Lexadin World Law Guide for a collection of arbitration and other laws in Moldova.

Section 3 - Economy

Despite recent progress, Moldova remains one of the poorest countries in Europe. With a moderate climate and good farmland, Moldova's economy relies heavily on its agriculture sector, featuring fruits, vegetables, wine, and tobacco. Moldova also depends on annual remittances of about \$1.6 billion from the roughly one million Moldovans working in Europe, Russia, and other former Soviet Bloc countries. With few natural energy resources, Moldova imports almost all of its energy supplies from Russia and Ukraine. Moldova's dependence on Russian energy is underscored by a growing \$5 billion debt to Russian natural gas supplier Gazprom, largely the result of unreimbursed natural gas consumption in the separatist Transnistria region. In August 2013, work began on a new pipeline between Moldova and Romania that may eventually break Russia's monopoly on Moldova's gas supplies. The government's goal of EU integration has resulted in some market-oriented progress. Moldova experienced better than expected economic growth in 2013 due to increased agriculture production, to economic policies adopted by the Moldovan government since 2009, and to the receipt of EU trade preferences. Moldova is poised to sign an Association Agreement and a Deep and Comprehensive Free Trade Agreement with the EU during fall 2014, connecting Moldovan products to the world's largest market. Still, growth has been hampered by high prices for Russian natural gas, a Russian import ban on Moldovan wine, increased foreign scrutiny of Moldovan agricultural products, and by Moldova's large external debt. Over the longer term, Moldova's economy remains vulnerable to political uncertainty, weak administrative capacity, vested bureaucratic interests, corruption, higher fuel prices, Russian pressure, and the illegal separatist regime in Moldova's Transnistria region.

Agriculture - products:

vegetables, fruits, grapes, grain, sugar beets, sunflower seed, tobacco; beef, milk; wine

Industries:

sugar, vegetable oil, food processing, agricultural machinery; foundry equipment, refrigerators and freezers, washing machines; hosiery, shoes, textiles

Exports - commodities:

foodstuffs, textiles, machinery

Exports - partners:

Russia 20.9%, Romania 19.8%, Italy 11.6%, Ukraine 6.6%, Turkey 6%, Germany 4.7% (2012)

Imports - commodities:

mineral products and fuel, machinery and equipment, chemicals, textiles

Imports - partners:

Ukraine 20.9%, Romania 16.1%, Germany 9.4%, Russia 7.9%, Italy 5.7%, Belarus 5.3%, Turkey 4.7%, Poland 4.4% (2012)

Banking

Moldova's banking system was set up in two tiers in 1991 around the time of the breakup of the USSR and currently comprises a central bank and 15 commercial banks.

Set up in 1991 under the law on the National Bank of Moldova, the central bank licenses, supervises, and regulates the activity of financial institutions in Moldova. The National Bank is accountable to the Moldovan Parliament. An overhaul of banking legislation was undertaken in 1995 in keeping with the structural reforms that extended the role and functions of the central bank and second-tier commercial banks. The National Bank has undertaken measures to uphold banking stability, scoring considerable progress in observing international standards and codes as set out by the Basel core principles for effective banking supervision. In 2006, the central bank's priority objective was shifted from maintaining the stability of the national currency to ensuring price stability. Moldova's banking sector has successfully withstood past economic shocks and while it did relatively well in coping with the global financial initially, one bank went bankrupt in 2009.

A deposit insurance fund was set up in 2004 to guarantee a minimum amount of individual saving deposits in commercial banks. The fund has recently raised the guaranteed amount to 6,000 Moldovan lei (around USD 470).

In a bid to bring about consolidation in the banking sector, the National Bank has raised the minimum required capital over the years a few times. The current minimum required capital for banks was set at 100 million Moldovan lei (USD eight million).

Private institutions dominate the banking sector and Banca de Economii (Savings Bank) remains the last state-owned bank. The Government intends to privatize the bank eventually, but has been postponing the announcement of a tender.

Some 75 percent of banking capital is accounted for by foreign investment. The year 2006 saw the arrival of reputable European banks in Moldova: Italy's Gruppo Veneto Banca and France's Societe Generale, both acquiring two mid-sized banks. In the case of Mobiasbanca, the takeover by the French bank propelled the bank into the top five Moldovan banks. Romania's Banca Comerciala Romana, a subsidiary of Austria's Erste Bank, has a branch in Chisinau. Another Austrian bank, Raiffeisen Bank, set up a representative office with a view to establish a fully operational bank in the future.

Stock Exchange

Moldova's securities market is generally underdeveloped. In 2007, a "mega-regulator," the National Commission on the Financial Market (NCFM), replaced the National Securities Commission. The NCFM supervises the securities market, insurance sector and non-bank financing. The NCFM is operationally independent. Starting October 1, 2008, it acquired the right to issue and to withdraw licenses for all non-bank financial sectors it supervises. The Commission adopted a Corporate Governance Code and passed new regulations intended

to simplify the issuance of corporate securities and increase the transparency of transactions at the Moldovan Stock Exchange.

Executive Summary

Since its independence in 1991, Moldova, a former Soviet republic, has made significant progress towards adopting the principles of a free market democracy. However, it has a mixed record of reforms over the years with past practices afflicting its public and private sectors and showcasing its institutional weaknesses. The political turmoil of 2013 highlighted the major shortcomings of its business environment and governmental practices despite a declared understanding of the need for more foreign direct investment.

Controversies in the banking and financial sectors and questionable governmental decisions conceding control in several key sectors rocked the country. Despite slight progress reported by the latest World Bank Survey on Ease of Doing Business, recent efforts to tackle corruption, increase transparency in decision-making, cut bureaucracy, and uphold the rule of law have yet to make significant improvements in the investment climate.

A new government was created in 2013, which continued the previous government's path toward greater integration with the EU. The government initiated its Association Agreement (AA) with the EU, including a deep and comprehensive free trade agreement (DCFTA), in November 2013. With the signing of the AA expected to occur no later than early autumn of 2014, Moldova will be firmly set on a course of deeper reforms to bring its governmental, regulatory, and business practices in line with EU standards. The implementation of the DCFTA will integrate Moldova further into the EU market and create more opportunities for investment as a bridge between the vast markets of the EU and former Soviet republics.

The business climate remains challenging. While underdevelopment in many sectors offers opportunities, Moldova is not for unexperienced investors. While a number of large foreign companies have taken advantage in recent years of the tax breaks available in the country's free economic zones, foreign direct investment remains low.

The Government of Moldova (GOM) outlined seven priority areas for development and reform in its National Development Strategy "Moldova 2020": education, access to financing, road infrastructure, business regulation, energy efficiency, justice sector reform, and social insurance. Based on that strategy, the Moldovan government set out a 2013-2015 action plan for a business regulatory framework reform to ease day-to-day business activity.

The major issues that might affect the country's investment climate in 2014 could stem from political uncertainties related to the upcoming parliamentary elections and destabilization in the wider region.

1. Openness to, and Restrictions upon, Foreign Investment

Moldova continues to take steps toward developing a stronger economy, reforming a cumbersome regulatory framework, combating corruption and adopting reforms aimed at improving the business climate. The current Government of Moldova, re-elected in November 2010 and representing a coalition which initially came into office in September 2009, pledged to accelerate democratic and economic reforms begun in 2009 with European orientation and integration as its fundamental foreign policy goal. In May 2013,

following several months of political instability and infighting between the ruling parties of the coalition, the parties agreed to create a new government headed by former Foreign Minister Iurie Leanca.

After a prolonged recession in the 1990s, Moldova's GDP grew for eight straight years between 2001 and 2008, primarily driven by soaring remittances from migrant workers abroad that fueled economic growth. In 2009, like most countries in the region, Moldova was affected severely by the global economic crisis, and experienced a six percent drop in GDP as a result of plummeting remittances from abroad. Economic growth rebounded after 2010, but took a 0.8 percent dip in 2012 due to the slowdown in Europe and a severe drought that adversely affected domestic agriculture. In 2013, the economy shot up 8.9 percent, a higher than projected growth, thanks primarily to a rebound in agriculture.

Moldova, consistently ranked as one of the poorest countries in Europe, relies heavily on investments, foreign trade and remittances for economic growth. Moldova profited from increased inflows of foreign direct investment (FDI) with eastward expansion of the EU, which became the country's immediate neighbor following Romania's accession to the EU on January 1, 2007. However, the global crisis significantly decreased FDI in Moldova, which fell more than 60 percent in 2009 and has yet to return to pre-crisis levels. Although remittances have increased, they have yet to rebound to 2008 peak year levels, reflecting sluggish economic performance in countries with large numbers of Moldovan migrant workers. The country created an Action Plan with the EU from 2004-2008 that established a roadmap for democratic and economic reforms so that Moldovan laws and regulations would better conform to European standards. Following the expiration of the Action Plan in February 2008, Moldova explored other trade options with the EU before starting negotiations with the EU on an Association Agreement in January 2010. In November 2013, Moldova initialed the EU Association Agreement that includes a deep and comprehensive free trade area (DCFTA) and is set to sign it in the summer of 2014. Moldova sees the Agreement as a framework that will bring Moldova closer to the EU through political association and economic integration.

As a country with a small market, Moldova implements a liberalized trade and investment strategy to promote the export of its goods and services. A member of the WTO since 2001, Moldova has signed free trade agreements with countries of the former Soviet Union. In December 2006, Moldova joined the Central European Free Trade Agreement. In 2008, Moldova moved from the extended generalized system of preferences (GSP-plus) with the EU to autonomous trade preferences, which expanded the duty-free access of Moldovan goods to EU markets. The EU market is the country's largest export destination, usually accounting for slightly less than half of all Moldovan exports. Originally valid until 2012, the EU extended autonomous trade preferences through 2015. To deepen its preferential trade arrangements with the EU, Moldova began negotiating a DCFTA Agreement in 2012. In preparation for the AA and DCFTA, the Moldovan government adopted policies and laws aimed at creating a friendlier business environment and opening new business opportunities with the EU. Ultimately, these changes will lead to Moldova's integration into the common EU market. Since September 2013, Moldova has faced a Russian ban on alcoholic products. Moldova's dependence on agricultural exports to Russia makes it vulnerable to economic pressures.

Attracting FDI is critical to enhancing Moldova's economic competitiveness. Under Moldovan law, foreign companies enjoy equal treatment as local companies – also known as the "national treatment principle." The GOM views investments as vital for sustainable economic growth and poverty reduction. However, the amount of FDI is far below what Moldova needs to create jobs and promote economic growth.

After years of low FDI in the 1990s, FDI inflows steadily increased from 2004 to 2008. According to the National Bank of Moldova (NBM), FDI inflows amounted to a record high of \$873.38 million in 2008. The world economic crisis contributed to an abrupt drop in foreign investment in 2009, when FDI fell by more than 60 percent to \$360.01 million. Since then, annual FDI inflows have never exceeded 2008 levels. Recent years have seen large-scale investments by Germany's Metro Cash & Carry, Germany's Draexlmaier, France's Societe Generale, Austria's Grawe Insurance Company, Austria's Raiffeisen Investment, the Netherlands' Easur Holding B.V., Italy's Gruppo Veneto Banca, U.S. investment fund NCH Capital, U.S. equity fund Horizon Capital and the U.S. Lear Corporation. American investments in Moldova are primarily in the wine and food industry, automotive parts, cosmetics, telecommunications, banking and real estate.

Over the years, the GOM has made efforts to lower tax rates, strengthen tax administration, increase transparency and simplify business regulations. Decision-making remains sometimes opaque and the application of laws and regulations inconsistent. The GOM needs to take more steps to reform public service and improve the quality of administrative performance. Moreover, Moldova must prevent government interference in the private sector, which protects influential individuals, uses governmental powers to pressure businesses for personal or political gains, and selectively applies regulations. The political uncertainties of 2013 highlighted fundamental problems with the business environment in Moldova. The controversial concession of the Chisinau International Airport and de facto privatization of one of Moldova's largest banks, Banca de Economii, raised further questions about the Moldovan government's practices.

Following the parliamentary elections of July 2009, the GOM approved an Economic Stabilization and Recovery Program (ESRP), which focused on balancing public finances and liberalizing the highly regulated economy. The ESRP received the backing of the International Monetary Fund (IMF) in January 2010 with the approval of a combined three-year \$580 million Extended Credit Facility/Extended Fund Facility to support the country's economic program by restoring fiscal and external sustainability. Developed in 2009, the ESRP does not represent a substitute for the GOM's longer-term reform agenda. In 2012, the GOM outlined in the National Development Strategy Moldova 2020 seven-priority areas for development and reform in the Strategy: education, access to financing, road infrastructure, business regulation, energy efficiency, justice system and social insurance.

On January 22, 2010, Millennium Challenge Corporation (MCC) CEO Daniel Yohannes and Moldovan Deputy Prime Minister Iurie Leanca signed a five-year, \$262 million Millennium Challenge Corporation (MCC) Compact intended to reduce poverty and accelerate economic growth by improving Moldova's transportation and agricultural sectors. The Compact funds two projects, one for road rehabilitation and the other for a transition to high-value agriculture project, which focuses on rehabilitating centralized irrigation systems, providing technical assistance and providing access to financing for farmers.

The GOM launched the first privatization in Moldova in 1994. It has adopted three separate privatization programs, including privatization via National Patrimonial Bonds (foreigners were not allowed to participate); via cash transactions for both locals and foreigners; and via a program, which involved only cash privatization. The third program began in 1997-1998 and was extended to 2000. The program was later extended with some modifications to the end of 2006. Foreign investors have successfully participated in the third program of privatizations. In 2007, Parliament passed a new privatization law, which introduced a new plan focused on efficiency for privatizing and managing state-owned assets. In 2013, the GOM continued to focus on privatization of state-owned assets after releasing a new list of assets subject to privatization. It suspended previous plans for large-scale privatizations in 2014, in the lead up to planned parliamentary elections. The GOM is increasingly emphasizing public-private partnerships as means for companies to have access to state-owned resources, especially in infrastructure-related projects.

The Law on Investment in Entrepreneurship prohibits discrimination against investments based on citizenship, domicile, residence, place of registration, place of activity, state of origin or any other grounds. The law provides for equitable and level-field conditions for all investors. It rules out discriminatory measures hindering the management, operation, maintenance, utilization, acquisition, extension or disposal of investments. Local companies and foreigners are to be treated equally with regard to licensing, approval, and procurement.

In addition to international treaties, Moldovan law regulates business activity, including foreign investments. Such laws include, but are not limited to, the Civil Code, the Law on Property, the Law on Investment in Entrepreneurship, the Law on Entrepreneurship and Enterprises, the Law on Joint Stock Companies, the Law on Small Business Support, the Law on Financial Institutions, the Law on Franchising, the Tax Code, the Customs Code, the Law on Licensing Certain Activities and the Law on Insolvency.

The current Law on Investment in Entrepreneurship came into effect on April 23, 2004. It was designed to be compatible with European legislative standards and defines types of local and foreign investment. It also provides guarantees for the respect of investors' rights, non-application of expropriation or actions similar to expropriation, and for payment of damages in the event investors' rights are violated. The law permits investment in all sectors of the economy, while certain activities require a business license.

There is no screening of foreign investment in Moldova and legislation permits 100 percent foreign ownership in companies, except for a law prohibiting offshore companies from holding shares in commercial banks. By statute, special forms of legal organizations and certain activities require a minimum of capital to be invested (e.g., Moldovan Lei (MDL) 5,400 (\$410) for limited liability companies, MDL 20,000 (\$1,500) for joint stock companies, MDL 15 million (\$1.15 million) for insurance companies and MDL 100 million (\$7.5 million) for banks.

TABLE 1: The following chart summarizes several well-regarded indices and rankings

Measure	Year	Index/Ranking
TI Corruption Perceptions Index	2013	102 of 177

Heritage Foundation's Economic Freedom Index	2013	115 of 177
World Bank Doing Business	2013	86 of 189
Global Innovation Index	2013	45 of 142
World Bank GNI per capita	2012	USD 2,070

TABLE 1B - Scorecards:

The Millennium Challenge Corporation, a U.S. government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Moldova's scorecard can be found here: <http://www.mcc.gov/documents/scorecards/score-fy14-english-md-moldova.pdf>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

2. Conversion and Transfer Policies

Moldova accepted Article VIII of the IMF Charter in 1995, which required liberalization of foreign exchange operations. There are no restrictions on the conversion or transfer of funds associated with foreign investment in Moldova. After the payment of taxes, foreign investors are permitted to repatriate residual funds. Residual-funds transfers are not subject to any other duties or taxes, and do not require special permission. There are no significant delays in the remittances of investment returns, since domestic commercial banks have accounts in leading multinational banks. Foreign investors enjoy the right to repatriate their earnings.

Generally, there are no difficulties associated with the exchange of foreign or local currency in Moldova. After the tumultuous period of inflation and devaluation of the 1990s, the local currency, the Moldovan leu (plural, lei) (MDL), has been generally stable. The leu is the only accepted legal tender in the retail and service sectors in Moldova. The foreign exchange regulation of the National Bank allows foreigners and residents to use foreign currencies in some current and capital transactions in the territory of Moldova. After a rally in the aftermath of the global crisis, the leu weakened its position in 2012. In 2013 its depreciation was deeper, primarily seen as a result of monetary policy actions by the National Bank aimed at keeping inflation within its projected targets. In 2013, the MDL began the year at 12.06 to one U.S. dollar and finished at 13.06, an 8.2 percent drop in value. In 2014, the chief risk to the national currency will likely be from political and economic uncertainties in neighboring Ukraine, which is a major trade partner and transit country for goods going into Russia, Belarus and other CIS countries.

The U.S. Embassy has received no complaints from U.S. investors regarding converting or remitting funds associated with investments in Moldova.

3. Expropriation and Compensation

The Law on Investment in Entrepreneurship states that investments cannot be subject to expropriation or to measures with a similar effect. An investment may be expropriated only if all three of the following conditions are present: the expropriation is done for purposes of public utility, is not discriminatory, and is done with just and preliminary compensation. If a public authority violates an investor's rights, the investor is entitled to reparation of damages. The compensation will be equivalent to the real extent of the damage at the time of occurrence. The public authorities concerned will pay compensation for any damage caused, including any lost profits. Compensation must be paid in the currency in which the original investment was made or in any other convertible currency.

The government has given no evidence of intent to discriminate against U.S. investments, companies or representatives by expropriation, or of intent to expropriate property owned by citizens of other countries. No particular sectors are at greater risk of expropriation or similar actions in Moldova.

Moldovan law restricts the right to purchase agricultural and forest land to Moldovan citizens. Foreigners may become owners of such land only through inheritance and may only transfer the land to Moldovan citizens. In 2006, Parliament further restricted the right of sale and purchase of agricultural land to the state, Moldovan citizens and legal entities without foreign capital. However, foreigners are permitted to buy all other forms of property in Moldova, including land plots under privatized enterprises and land designated for construction. Moldovan-registered companies with foreign capital are known to own agricultural land, by means of loopholes in the previous law. In the past, the limit on foreign ownership of agricultural land was used in lawsuits as an argument against foreign companies. The only straightforward option available to foreigners who wish to use agricultural land in Moldova at this time is to lease agricultural land.

Since 2001, the GOM has cancelled several privatizations, citing the failure of investors to meet investment schedules or irregularities committed during privatization. While the government agreed to repay investors in such disputes, payment of compensation was delayed. Often, investors had to apply to the European Court of Human Rights (ECHR) to enforce payment of compensation from the Moldovan government. The GOM has been compliant with the ECHR rulings involving foreign businesses.

Investors should be aware that most Moldovan territory east of the Nistru (Dniester) River is under the control of a separatist regime that does not recognize the sovereignty of the legitimate Moldovan authorities in Chisinau. These separatists have declared a self-proclaimed "Transnistrian Moldovan Republic," commonly known as "Transnistria." The U.S. embassy advises any potential investors of its limited ability to provide any assistance, including consular and commercial services, in areas east of the Nistru River. Also, the GOM has indicated in the past that it will not recognize the validity of contracts for the privatization of firms in Transnistria that are concluded without the approval of the appropriate Moldovan authorities. In March 2006, Ukraine imposed new customs regulations under which Transnistrian companies seeking to engage in cross-border trade had to register in Chisinau. Despite initial protests by the local regime, most of Transnistria's large companies involved in foreign trade operations subsequently registered with Moldovan authorities.

4. Dispute Settlement

Moldova has a record of disputes over past privatizations involving foreign investors. Party of Communists (PCRM) officials, when in opposition prior to 2001, criticized what they characterized as "sweetheart deals" for many privatizations. Consequently, once in power in 2001, the first PCRM-backed government increased its scrutiny of the privatization process, including previously concluded contracts. (The PCRM has not been in power since July 2009.) The GOM cancelled some privatizations because of alleged irregularities in the privatization procedures or the failure of investors to meet an investment timetable. There were accounts of businesses becoming targets of investigations due to business owners' political affiliation, while local media reported excessive red tape or arbitrary decisions made by government agencies, police, or tax authorities. Businesses from time to time complain about inspections, sometimes bordering harassment, carried out by various authorities.

As a result of negotiations connected with Moldova's accession to the WTO, modern commercial legislation was adopted in accordance with WTO rules. The main challenges to the business climate remain the lack of effective and equitable implementation of laws and regulations, and arbitrary, non-transparent decisions by government officials. In circumvention of WTO principles, the GOM nevertheless may apply measures that put domestic producers at an advantage in comparison with foreign competitors in certain areas. For example, an environmental tax is applied on bottles and other packaging of imported goods, while such a tax is not levied on bottles and packaging produced in Moldova. Additionally, the GOM may intervene in the economy, in defiance of the declared respect for market principles, under the formal excuse of public security or general social welfare.

Moldovan courts are nominally independent from government and political interference, suffering from low levels of efficiency and citizen trust. According to the 2011-2016 Justice Sector Reform Strategy, the Judicial Administration Department was transferred to Superior Council of Magistrates supervision by the end of 2013. After the enactment in 2011 of the 2011-2016 Justice Sector Reform Strategy, the Strategy's Action Plan was enacted at the beginning of 2012 by the Moldovan Parliament. The Action Plan envisions multiple actions aimed at restricting the court system, prosecution and other law enforcement agencies, institution of zero-tolerance policies towards corruption, integrity and polygraph testing of justice sector officials and creation of a strong ethics framework. To improve the investment climate, the GOM included a separate pillar within the Justice Sector Reform Strategy entitled "The Role of Justice in Economic Development". The overall objective of this pillar is to identify and implement actions, which will enable the justice sector agencies to help create a favorable environment for a sustainable development of Moldovan economy. All actions under this objective target three strategic directions, namely: strengthening the system of alternative dispute resolution; improving the insolvency procedures; and modernization of the system for maintaining and providing information concerning companies' registration.

In 2003, the government restructured the judiciary by eliminating the lower-tier of appellate courts (called tribunals) and the Higher Court of Appeals. The judiciary now consists of lower courts (i.e., trial courts), five courts of appeals and the Supreme Court of Justice. In addition, a separate layer of courts covering the judicial settlement of economic/trade-related litigation was created. This quasi-separate court system consisted of the District Economic Court as a trial court, the Economic Court of Appeals, and the Supreme Court of Justice,

whose jurisdiction included the adjudication of economic litigation. In July 2011, Parliament enacted a series of amendments, which reorganized the judicial system and dissolved the economic courts. Within six months from the date of enactment, the jurisdiction of economic courts was gradually transferred to common law courts, namely appellate and trial level courts. The economic courts' assets and budgetary resources were re-directed to the common law and appellate courts. Throughout 2012, the GOM completed the entire transition process by re-appointing judges and other personnel to new courts.

The GOM accepts binding international arbitration of investment disputes between foreign investors and the state. By law, investment disputes can be solved in Moldovan courts or through arbitration. In the event of ad hoc arbitration, the law requires compliance with the United Nations Commission on International Trade Law (UNCITRAL) rules, arbitration rules of the Paris International Chamber of Commerce (ICC) of January 1, 1998, and other rules, principles and norms agreed upon by the parties.

In 2011, Moldova ratified the Convention on the International Center for the Settlement of Investment Disputes (ICSID - Washington Convention). The country also ratified the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Moldova is also a party to the Geneva European Convention on International Commercial Arbitration of April 21, 1961, and the Paris Agreement relating to the application of the European Convention on International Commercial Arbitration of December 17, 1962. Moldova has also ratified various trade agreements establishing bilateral investment protection with 39 countries, including with the United States.

While Moldova has enjoyed normal trade relations with the United States since its independence, in late 2012, U.S. Congress repealed the Jackson-Vanik Act, which restricted trade with the Soviet Union. Moldova benefits from its eligibility for U.S. Generalized System of Preferences (GSP) trade status by exporting various categories of goods to the United States. Under Congressional authorization, the GSP program is designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories.

5. Performance Requirements and Incentives

All incentives are applied uniformly to both domestic and foreign investors. Unlike its predecessor, the Law on Investment in Entrepreneurship, in effect since 2004, no longer protects new investors from legislative changes for ten years. However, the new law left in effect past privileges and guarantees granted to foreign investors under the old Law on Foreign Investment. One such privilege provides for exemptions from customs duties on imports until April 23, 2014, if the imports are used to manufacture goods bound for export.

After a four-year period with no corporate income tax, the GOM reintroduced a 12 percent corporate income tax beginning in January 1, 2012. Small businesses that meet requirements set out in the Fiscal Code can opt for a flat three percent levy on sales instead of corporate income tax. Starting in 2012, the Tax Code has fewer corporate income tax breaks available for businesses.

No formal requirements exist for investors to purchase from local sources or to export a certain percentage of their output.

No limitations exist on access to foreign exchange in relation to a company's exports. There are no special requirements that nationals own shares of a company. Both joint ventures and wholly foreign-owned companies may be set up in Moldova.

While not an official policy, in sectors of the economy that require large investments and experienced management, such as energy or telecommunications, the GOM has always showed preference to experienced foreign investors instead of local investors. In all other sectors, foreign and local investors formally receive equal treatment.

The government does not impose "offset" requirements on procurements. Moldovan law allows investments in any area of the country in any sector, provided that national security interests, anti-monopoly legislation, environmental protection, public health and public order are respected.

Enforcement procedures for performance requirements to enjoy tax incentives are described in the Tax Code and related governmental decisions and Ministry of Finance instructions.

Foreign investors are required to disclose the same information as local ones. Moldova has no discriminatory visa, residence or work-permit requirements inhibiting foreign investors' mobility in Moldova. The GOM set up a one-stop shop for foreigners applying for Moldovan residence and work permits in a bid to streamline a complicated procedure.

Moldova has a liberal commercial regime with more than 100 countries. According to the Tax Code, Moldovan exports are exempt from value added tax. Although there are no formal import price controls, there are reports that Moldovan Customs Service may make arbitrary price assessments on certain types of imported goods for taxation purposes.

6. Right to Private Ownership and Establishment

The Constitution of the Republic of Moldova guarantees the inviolability of investments by all natural and legal entities, including foreigners. Key constitutional principles include the supremacy of international law, a market economy, private property, provisions against unjust expropriation, provisions against confiscation of property and separation of powers among government branches. The Constitution provides for an independent judiciary; however, government interference and corruption remain problems in the application of laws and regulations, and in the impartiality of the courts.

Current investment legislation is based on nondiscrimination between foreign and local investors. Moldovan law ensures full and permanent security and protection of all investments, regardless of their form. There are no formal economic or industrial strategies that have a discriminatory effect on foreign-owned investors in Moldova, and no limits on foreign ownership or control, except in the right to purchase and sell agricultural and forest land, which is restricted to Moldovan citizens.

7. Protection of Property Rights

The legal system protects and facilitates the acquisition and disposition of all property rights. Moldova has adopted laws on property and on mortgages. A system for recording property titles and mortgages is in place; however, the mortgage market is still underdeveloped.

The judicial sector remains weak and does not always guarantee the rights of citizens and foreign investors from alleged governmental or private sector misdeeds. Recent examples of judicial malfeasance involve four cases, where Moldovan and foreign investors were illegally dispossessed of their shares in Moldovan financial institutions, and were not protected in dubious Moldovan lower courts' decisions. Only one of the cases was appealed to the Moldovan Supreme Court, where it ruled in favor of the investors.

Moldova technically adheres to key international agreements on intellectual property rights. Moldova is a signatory to the International Convention Establishing the World Intellectual Property Organization. However, the Business Software Alliance (BSA) consistently ranks Moldova among the top ten offenders in the world for IT piracy. According to the latest annual BSA global piracy study released in 2011, Moldova is among the countries with the highest software piracy rate at 90 percent. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Moldova took measures to implement and enforce the WTO TRIPS agreement before its official accession to the WTO, and adopted local laws to protect intellectual property, patents, copyrights, trademarks and trade secrets. The country has an agency for the protection of copyrights, the State Agency for Intellectual Property. The country also has a few professional associations dedicated to protecting its members' copyrights. Although many basic policies are in place and the country is taking steps of legal approximation with EU norms in the field, especially with the expected signing of the Deep and Comprehensive Free Trade Agreement, enforcement is still sporadic and insufficient. The situation is further aggravated by widespread corruption and reported conflicts of interest. The GOM undertook measures to crack down on sales of unauthorized copies of CDs and DVDs. It also has attempted to deal with internet piracy. However, copyright infringements are rarely if ever prosecuted. A new law on copyright and related rights went into effect on January 1, 2011, increasing the role of internet providers in preventing the spread of pirated materials. To make the new copyright law effective and toughen penalties for copyright infringements, in 2011 Moldova passed changes to its Code of Administrative Contraventions and Criminal Code. In 2012, GOM adopted a new National Intellectual Property Strategy for 2012-2020.

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A public list of local lawyers can be found on U.S. Embassy's website:

<http://moldova.usembassy.gov/lawyers.html>

American Chamber of Commerce in Moldova:

www.amcham.md

8. Transparency of the Regulatory System

Bureaucratic procedures are not always transparent and red tape often makes processing registrations, ownership, etc. unnecessarily long, costly and burdensome. Discretionary decisions by state functionaries provide room for corruption. Since 2004, the GOM has been taking steps to reduce excessive government regulation of business activity. In 2004, a so-called "guillotine law" eliminated costly and obsolete regulations and forced the publication

of all business-related regulations. All regulations and governmental decisions related to business activity have been published in a special business registry - the "Register of Regulations on Business Activity." These steps were intended to raise the awareness of business people about their rights, increase the transparency of business regulations and help fight corruption. A second "guillotine law," the Law on Basic Principles Regulating Entrepreneurial Activity, was passed in August 2007. The GOM started applying a regulatory impact assessment to all draft laws and acts bearing on business activity to enhance transparency in the drafting of laws and regulatory acts. The GOM vetted 100 laws with the goal of reducing payments to regulatory and control bodies and streamlining business-licensing procedures and economic-financial controls. As part of the USAID-backed program, the Ministry of Economy reviewed the number of permits and authorizations issued to businesses as well as the number of authorities issuing such documents. As a result, GOM approved a list of business permits and authorizations and banned governmental agencies and inspections from issuing or requesting any form of documents not included in the list. In 2012, Parliament passed a law to introduce clear and uniform rules for the release of information and standardized documents through a "one-stop window." Business registration has been carried out through a one-stop window since 2010. The GOM took further steps to deregulate construction projects by reducing the number, cost and time of administrative procedures needed to obtain building permits. To further protect businesses from arbitrariness of inspecting bodies, in 2012, Parliament passed a law that regulates the timing and the types of checks various authorities can conduct on businesses. Starting in 2012, businesses are able to apply on-line to get licenses, following years of moving to electronic reporting for statistical, tax or social security purposes.

After several years of delay, the government established a National Competition Agency in 2007. From its outset, the agency's targeted actions against major foreign investors drew accusations of abuse, lack of experience and flawed antitrust legislation. As a result, in 2012, Parliament passed a new law on competition that was hailed by the EU Ambassador in Moldova as compliant with EU practice and legislation. The National Competition Agency was renamed the Competition Council.

In the World Bank's 2013 "Ease of Doing Business" global index, Moldova moved up eight spots to 76 out of 189 countries. The GOM still continues to ease day-to-day business activity and simplify regulation of foreign trade transactions. In 2013, the GOM adopted the Business Regulatory Framework Reform Strategy for 2013-2020 and an action plan for the period 2013-2015.

The government usually publishes significant laws in draft form for public comment. Business and trade associations represent other opportunities for comment. The working group of the State Commission for Regulation of Entrepreneurial Activity, which was established as a filter to eliminate excessive business regulations, meets weekly to vet draft governmental regulations dealing with entrepreneurship. The working group's meetings are open to interested businesses.

The Foreign Investors Association (FIA) was established in 2004 with the support of the OECD. The FIA engages in a dialogue with the GOM on topics related to the investment climate and produces an annual publication of concerns and recommendations for the improvement of the investment climate. In 2006, the American Chamber of Commerce

(AmCham) registered in Moldova, representing another voice for the business community. In fall 2009, AmCham produced a Roadmap for the Development of Moldova's Business and Economic Climate, which it presented to the new prime minister. The Roadmap made a number of recommendations to improve business regulation. In 2011, a group of ten large EU investors founded the European Business Association (EBA) with the support of the EU Ambassador to Moldova.

Since 2008, the National Business Agenda supported by the U.S. Center for International Private Enterprise (CIPE) has organized 30 domestic business associations putting forth an annual list of priorities in their dialogue with the authorities. These priorities deal with the general business environment and regulatory framework.

Moldova introduced its National Accounting Standards (NAS), based on International Accounting Standards (IAS), in 1998. While this meant greater transparency of financial information and compatibility with IAS, the NAS has not been updated since then, leaving it outdated. With the NAS lagging behind the International Financial Reporting Standards (IFRS), authorities started an update of accounting standards in line with IFRS. A new law on accounting took effect on January 1, 2008. Banks, insurance companies, non-governmental pension funds, investment funds and publicly listed companies were required by law to apply the IFRS beginning January 1, 2011. However, adoption of IFRS for the vast majority of companies is optional.

9. Efficient Capital Markets and Portfolio Investment

Laws, governmental decisions, securities regulations, NBM regulations and Stock Exchange regulations provide the framework for capital markets and portfolio investment in Moldova. The GOM began regulatory reform in this area in 2007 with a view to spurring the development of the weak non-banking financial market. In particular, since 2008 only two bodies – the NBM and the National Commission on the Financial Market – regulate financial and capital markets.

Credit is allocated on market terms with banks being the only reliable source of business financing. The GOM regulates credit policy via credits from the NBM, auctions through commercial banks, compulsory reserves, credits secured through collateral, open market operations and T-bill auctions on the primary market. Foreign investors may obtain credit on the local market. However, local commercial banks provide mostly short-term, high-interest loans, which require large amounts of collateral, reflecting the country's perceived high economic risk. In recent years, lending activity has been growing and interest rates have been dropping. Several large banks were affected by ownership scandals and hostile takeovers that dented their reputation. Large investments rarely can be financed through a single bank and require a bank consortium. Recent years have seen a growth in leasing and micro-financing. Raiffeisen Leasing remains the only international leasing company to have opened a representative office in Moldova.

The private sector's access to credit instruments is difficult because of the insufficiency of long-term funding and excessively high interest rates. Financing through local private investment funds is virtually non-existent. A few U.S. investment funds have been active on the Moldovan market, notably NCH Advisors, Western NIS Enterprise Fund and Emerging Europe Growth Fund, the latter two managed by Horizon Capital equity fund managers.

Moldova's securities market is underdeveloped. Acting as an independent regulatory agency, the National Commission on the Financial Market (NCFM) supervises the securities market, insurance sector and non-bank financing. The Commission adopted a Corporate Governance Code and passed new regulations intended to simplify the issuance of corporate securities and increase the transparency of transactions on the Moldovan Stock Exchange. In 2011, the GOM adopted a new Strategy for the Development of the Non-Banking Financial Strategy through 2014 that focuses on adopting European standards in financial market regulation and supervision. Amendments were passed in 2011 to the law on joint-stock companies to strengthen minority shareholder rights and improve disclosure obligations for transactions involving conflicts of interest. A new capital markets law that transposes European Union regulations came into effect in 2013. It is designed to open up capital markets to foreign investors, strengthen NCFM's powers of independent regulator and sets higher capital requirements on capital market participants. Following several takeover scandals over the past year, the government is also considering passing amendments to increase the efficiency and integrity of shareholder rights registration.

Moldovan banks are the main source of business financing, with non-bank financing, albeit growing, still playing a minor role. The banking system has two tiers: the NBM and 14 commercial banks. The NBM supervises the commercial banks and reports to Parliament. In 2013, the GOM relinquished its controlling stake in the only majority state-owned bank, Banca de Economii. Foreign investors' share in Moldovan banks' capital is around 73 percent. Yet, questions remain about true bank owners who pass as foreign investors in official statistics.

As of December 31, 2013, total bank assets were MDL 76.184 billion (\$6.05 billion). Moldova's five largest commercial banks account for around 70 percent of the total bank assets, as follows: Moldova Agroindbank: MDL 13.406 billion (\$1.064 billion); Moldindconbank: MDL 12.821 billion (\$1.018 billion); Victoriabank: MDL 11.647 billion (\$925 million); Banca de Economii: MDL 8.533 billion (\$678 million); and Unibank: MDL 7.244 billion (\$575 million).

10. Competition from State-Owned Enterprises

Moldovan legislation does not formally discriminate between state-owned enterprises and private-run businesses. By law, governmental authorities have to provide a level legal and economic playing field to all enterprises.

The Law on Entrepreneurship and Enterprises has a list of activities restricted solely to state enterprises, which includes, among others, human and medical research, manufacture of orders and medals, postal services (except express mail), sale and production of combat equipment and weapons, minting and real estate registration.

The GOM has privatized most state-owned enterprises, and most sectors of the economy are almost entirely in private hands. However, some large enterprises are still controlled by the government, which intends to privatize most of them. The major government-owned enterprises are two northern electrical distribution companies, the Chisinau heating companies, fixed-line telephone operator Moldtelecom, state airline Air Moldova and the state railway company.

There are reports of state-owned enterprises having an advantage over privately-run businesses in Moldova. Either from government representatives sitting on their boards or from

their dominant position in their industry, state-owned companies are generally seen as being better positioned to influence decision-makers than the private sector, and use this perceived competitive advantage to prevent open competition in their individual sector.

The GOM restarted efforts to sell attractive assets in 2008. Since then, privatization results have been modest. In 2013, an extended political crisis in the beginning of the year further muted government's privatization efforts that resulted in sales of about MDL 112 million (USD 8.8 million) worth of state assets.

11. Corporate Social Responsibility

Corporate Social Responsibility (CSR) and a culture of volunteerism and philanthropy are not highly developed in Moldova. Many Moldovans still have a view widely held from Soviet times of a paternalistic government being responsible for maintaining the social welfare of all citizens. With the entry of foreign companies into the Moldovan economy, the concept of CSR is being introduced. AmCham has set an example with its corporate members in the business sector by engaging in a reforestation project, in the rehabilitation of medical facilities and in Christmas collection projects for orphanages.

Foreign investors have incorporated CSR principles into their operations. CSR activities are viewed positively by Moldovans, but are largely centered in the capital of Chisinau.

12. Political Violence

The U.S. embassy has received no reports over the past ten years involving politically motivated damage to business projects or installations in Moldova. Following parliamentary elections in April 2009, protestors severely damaged the Parliament and the Presidential Administration buildings. However, the unrest was very limited, and no business facilities or projects were targeted.

Separatists control the Transnistrian region of Moldova, located between the Nistru River and the eastern border with Ukraine. Although a brief armed conflict took place in 1991-1992, both sides signed a ceasefire in July 1992, which has generally been observed. Local authorities in Transnistria maintain a separate monetary unit, the Transnistrian ruble (current market exchange rate is approximately 11 rubles per U.S. dollar), and a separate customs system. Despite the political separation, economic cooperation takes place in various sectors. The GOM has implemented measures requiring businesses in Transnistria to register with Moldovan authorities (see Expropriation and Compensation). The Organization for Security and Cooperation in Europe (OSCE), with Russia, and Ukraine acting as guarantors/mediators and the U.S. and EU as observers, continue to support negotiations between Moldova and the separatist region Transnistria (known as the "5+2" format). Throughout the years, negotiations have been piecemeal, with talks stalling in 2006 and formally resuming in late November 2011. The sides reactivated 15 expert working groups on broad set of topics. In 2013, there were five official meetings between the sides. An important achievement of the talks has been the resumption of rail freight traffic through Transnistria. Also, in 2013 Moldova took measures to contribute to the freedom of movement of Transnistrian residents who do not hold Moldovan citizenship.

13. Corruption

Moldova is making efforts to adopt European and international standards to combat corruption and organized crime. In 2007, Moldova ratified the United Nations Convention against Corruption, subsequently adopting amendments to its domestic anti-corruption legislation. In 2008, the GOM developed and enacted a series of companion laws designed to address current legislative gaps such as the Law on Preventing and Combating Corruption, the Law on Conflict of Interests and the Law on the Code of Conduct for Public Servants. In December 2011, the Moldovan Parliament passed the Law on the National Integrity Commission, which took effect in March 2012. The National Integrity Commission is designed to become the sole public authority responsible for the regulation and implementation of policies concerning conflicts of interest in the Moldovan public service. It is also in charge of scrutinizing the disclosure of assets by judges, prosecutors and other public officials. Since the law's entry into force, the Moldovan Parliament managed to elect the Commission's Chairman and members. However, the Commission still lacks administrative personnel and other resources to function properly.

The Center for Combating Economic Crimes and Corruption (CCECC) was also reorganized in 2012 into the National Anticorruption Center (NAC). According to law, the new NAC will focus solely on investigating public corruption and bribery crimes, and will be subordinated to the Parliament (CCECC was under the Government). For the first time, the GOM held an open competition for the position of NAC Director, with all milestones of the process being broadcast on multiple TV stations. In October, Parliament passed several amendments to the Law on Status of Judges that stripped judges of their immunity if under investigation or being for corruption crimes. However, the Supreme Court of Justice challenged the constitutionality of these amendments at the Constitutional Court. In September 2013, the Constitutional Court partially endorsed the constitutionality of challenged provisions. The Court ruled that judges can be prosecuted for corruption crimes without the Superior Council of Magistrates' agreement. Instead the Court upheld the provision guaranteeing that judges will not be subjected to search and arrest procedures prior to the Council's agreement.

Moldova's Criminal Code includes articles on public and private sector corruption, combating economic crimes, criminal responsibility of public officials, active and passive corruption and trade of influence. These additions put the legislation more in line with international, anti-bribery standards by criminalizing the act of offering a bribe. Under this definition, the act of promising, offering or giving a bribe to a public official is a crime.

According to the Moldovan Criminal Code, offering a bribe is regulated by Article 325 entitled "Active Corruption." Penalties for offering a bribe include prison terms up to 12 years and fines of up to 60,000 MDL (approximately \$4,500). The minimum penalty for offering a bribe is now imprisonment for up to five years with a fine of 20,000 MDL (approximately \$1,500) to 60,000 MDL. If committed by two or more persons or on a large scale, the offering of a bribe is punishable with imprisonment from three to seven years with a fine of 20,000 MDL to 60,000 MDL. The maximum penalty for offering a bribe in its aggravated forms, on an especially large scale, in the interest of an organized criminal group or criminal organization is punishable with imprisonment from six to twelve years with a fine from 20,000 MDL to 60,000 MDL. For legal entities, the lowest fine is 40,000 MDL (approximately \$3,000) and the highest is 200,000 MDL (approximately \$15,000).

Accepting a bribe is regulated by the Moldovan Criminal Code under Article 324 - "Passive Corruption." Penalties for accepting a bribe include prison terms up to 15 years, and fines of up to 60,000 MDL (approximately \$4,500), the deprivation of the right to hold certain positions or practice certain activities for two to five years. Parliament reviewed and passed amendments aimed at toughening the penalties for corruption statutes. The highest pecuniary penalty for corruption crimes is 200,000 MDL (approximately \$15,000). Likewise, if sentenced for passive corruption, public officials will be banned to re-enter the public service for up to 10 years.

In November 2012 as part of the Justice Sector Reform Action Plan, the Ministry of Justice drafted a series of amendments in the anti-corruption area. This package of anti-corruption amendments include: new legislation on integrity testing of justice sector officials, the introduction of extended confiscation and illicit enrichment statutes in the Moldovan Criminal Code as per the United Nations Convention Against Corruption (UNCAC). The new Criminal Code statutes and new laws on integrity testing of public officials and disciplinary liability law for judges were passed in late 2013. Parliament also passed the law on gradual salary adjustments which provides for a scheduled increase of judges' salaries until 2016.

Moldova is not a signatory of the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery. However, Moldova is part of two regional anti-corruption initiatives: the Stability Pact Anti-Corruption Initiative for South East Europe (SPAI) and the Group of States against Corruption (GRECO) of the Council of Europe. Moldova cooperates closely with the OECD through SPAI and with GRECO, especially on country evaluations. In 1999, Moldova signed the Council of Europe's Criminal Law Convention on Corruption and Civil Law Convention on Corruption. Moldova ratified both conventions in 2003.

In the past several years, the U.S. embassy received reports from foreign investors of serious problems with corruption and bribery. For example, when a foreign investor discovered that he had underpaid his taxes and wished to remedy the situation, the tax inspector assigned to the company attempted to extort money. The tax service later lauded the investor for his self-reporting and negotiated a reduced payment. The embassy has also received reports of "informal" hostile takeovers of profitable businesses. In these cases, business owners were approached by politically-connected individuals who wished to acquire part of the businesses. When business owners refused, they were soon forced to close via non-transparent measures.

Despite the established anti-corruption framework, the number of cases involving prosecution of corruption did not meet international expectations, and enforcement of existing legislation is deemed insufficient. The dismissal, in April 2013, of the government for corruption allegations worsened the Moldovan society's perception of corruption. Moldova dropped to 102th place in the 2013 Transparency International Corruption Perception Index (CPI). Moreover, the TI Global Corruption Barometer shows (GCB) that 71% of Moldovans think that corruption is a very serious problem and 60% think that the Government's in fighting corruption are ineffective. At the same time, according to the GCB, 80 % of Moldovan citizens believe that the most corrupt institution is the judiciary (80%), followed by police (76%) and political parties (75%).

14. Bilateral Investment Agreements

Moldova has signed bilateral investment protection and promotion agreements with 39 countries. In addition to the United States, these include Albania, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, China, Croatia, the Czech Republic, Cyprus, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iran, Israel, Italy, Kuwait, Kyrgyzstan, Latvia, Lithuania, the Netherlands, Poland, Qatar, Romania, Russia, Slovakia, Slovenia, Spain, Switzerland, Tajikistan, Turkey, Ukraine, the United Kingdom and Uzbekistan.

Moldova has a bilateral treaty with the United States on the Encouragement and Reciprocal Protection of Investment. Moldova has not signed a separate bilateral taxation treaty with the U.S. However, the U.S. Government applies the Convention on Matters of Taxation signed with the USSR on June 20, 1973, which also deals with avoidance of double taxation, to former Soviet republics, including Moldova.

15. OPIC and Other Investment Insurance Programs

In 1992, the Moldovan and U.S. governments signed an investment incentive agreement that exempts OPIC from Moldovan taxes on loan interest and fees. OPIC became active in Moldova in September 1997, providing political-risk insurance to a U.S. company investing in an agribusiness. Since then, OPIC has provided a number of financial and insurance products to U.S. businesses operating in Moldova in such fields as agribusiness, telecommunications, banking, consulting, transportation logistics and mortgage financing.

The U.S. Export-Import Bank (Ex-Im) provides U.S. companies investing in Moldova short- and medium-term financing in the private sector under its insurance, loan and guarantee programs. In 2000, Ex-Im Bank and Moldova signed a Framework Guarantee Agreement setting the terms for the GOM to issue sovereign guarantees to facilitate Ex-Im Bank financing of U.S. exports to Moldova. Also in 2000, Ex-Im Bank and Moldova signed a Project Incentive Agreement that enabled the Bank to consider financing of U.S. exports for credit-worthy private sector projects in Moldova on a non-sovereign risk basis, but which required host-government support in project-related activities such as permit and license approvals. Under the agreement, repayment of Ex-Im Bank financing is based on the capture of financed projects' revenue streams in special escrow accounts held in banks approved by Ex-Im Bank.

In 2002, Ex-Im Bank signed a memorandum of cooperation with the Black Sea Trade and Development Bank. Under the memorandum, Ex-Im Bank's financing products can be used to support exports of U.S. goods and services to any country located in the Black Sea region, including Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. The agreement enables the Black Sea Trade Development Bank to act as a guarantor of specific transactions and also provides for parallel financing arrangements.

Moldova is eligible for U.S. Trade and Development Agency (USTDA) funding for feasibility studies, orientation visits, specialized training grants, business workshops and other forms of technical assistance. USTDA considers funding for a wide range of sectors with export potential for U.S. companies. In 2003, USTDA approved funding for a study on upgrading the telecom system for the Moldovan Customs Service.

Institutions such as the European Bank for Reconstruction and Development and the World Bank are very active in Moldova in both the private and public sectors, offering various

financial tools for both insurance and credit. Moldova is a member of the Multilateral Investment Guarantee Agency (MIGA) and a member of the World Bank group. MIGA promotes foreign direct investment into developing countries by insuring investors against political risk, advising governments on attracting investment, sharing information through on-line investment information services and mediating disputes between investors and governments. Moldova is also eligible for project and trade financing from the Black Sea Trade and Development Bank. The country also benefits from loans extended by the EU's European Investment Bank and the Council of Europe Development Bank.

16. Labor

For years, Moldova prided itself on its skilled labor force, including numerous workers with specialized and technical skills. However, with past economic turmoil, many skilled laborers left Moldova for better paying jobs in other countries. This led to shortages in skilled workers in Moldova. Moldova's Constitution guarantees all employees the right to establish or join a trade union. Trade unions have influence in the large and mostly state-owned enterprises, and have historically negotiated for strong labor relations, minimum wage and basic worker rights. Unions are less active and effective in small private companies. Moldova is a signatory to numerous conventions on the protection of workers' rights.

The Moldovan General Federation of Trade Unions has been a member of the ILO since 1992, and has been affiliated with the International Confederation of Free Unions (ICFU) since 1997. The Federation split into two separate unions in 2000, but merged in 2007, forming the National Trade Union Confederation (CNSM). After attempts of the previous Communist-led government to interfere in the activity of unions, the CNSM was isolated from the international trade unions movement. With a change in government in 2009 and the election of new trade union leaders, CNSM was given membership in the International Trade Union Confederation in 2010.

17. Foreign Trade Zones/Free Ports

At present, seven free economic zones (FEZs), one international free port – Giurgiulesti – and one international free airport – Marculesti – are registered in Moldova. According to Moldovan law, job creation, attraction of foreign and domestic investments, and export-oriented production are the main goals of such zones. The Law on Free Economic Zones regulates FEZ activity. Foreigners have the same investment opportunities as local entities. FEZ commercial entities enjoy the following advantages: 25 percent exemption from income tax; 50 percent exemption from tax on income from exports; for investments of more than \$1 million, a three-year exemption from tax on income resulting from exports, and for investments of more than \$5 million, a five-year exemption from tax on income from exports; zero value-added tax; exemption from excises; and protection of residents against any new changes in the law for 10 years. Furthermore, residents investing at least \$200 million in the FEZ are protected against new changes in the law for the entire period of operation in the FEZ, but such protection cannot extend beyond 20 years.

The GOM also passed a law creating nine industrial parks in 2008 with the aim of attracting investments in industrial projects. Businesses operating in those parks do not receive any special tax treatment, but typically have access to ready-to-use production facilities, offices

and lower office rent fees for 25-30 years. Typically, these are idle premises of former big industrial enterprises.

Similar to the FEZs, the Giurgiulesti Free International Port, Moldova's only port accessible to sea-going vessels was established in 2005 for 25 years. Commercial residents of the port enjoy the following advantages: 25 percent exemption from income tax for the first 10 years following the first year when taxable income is reported; 50 percent exemption from tax on income for the remaining years; exemption from value-added tax and excises on imports and exports outside Moldova's customs territory; zero valued-added tax on imports from Moldova; and protection of commercial residents against any changes in the law until February 17, 2030.

The Marculesti International Free Airport, a former military air base, was established in 2008 as a free enterprise zone for a 25-year period to develop cargo air transport. Airport management is also interested in turning Marculesti into a regional hub for low-cost passenger airlines.

18. Foreign Direct Investment Statistics

As of January 1, 2013, the historical cost of the total stock of foreign direct investment (FDI) in Moldova since independence amounted to \$3.339 billion according to the NBM. However, FDI data are not always accurate due both to lack of reporting by businesses and changing methodologies by the National Bank.

FDI was growing steadily through 2008, when it reached the highest level in recent years. Inflows dropped afterwards as the global economic crisis took its toll on foreign investment. Except for 2011, investments have been going down since 2009. According to NBM data, FDI inflows (in millions of U.S. dollars) were as follows: \$374.77(2009); \$362.35 (2010); \$430.49 (2011); \$336.59 (2012).

According to NBM data, at the end of 2012, Moldova's direct investment abroad since independence amounted to \$108.2 million.

In 2012, FDI inflows were 4.6 percent of annual GDP (\$7.253 billion), while the FDI stock was 46.04 percent of GDP.

Major U.S. investors or representatives of U.S. companies in Moldova include:

- NCH Group of Investment Funds: real estate and financing companies
- Horizon Capital: equity investment fund managing the investments of Western NIS Enterprise Fund (which is phasing out its local activity) and the Emerging Europe Growth Funds I and II with holdings in banking, food processing and glass manufacturing
- Transoil: farming, agribusiness and grains trading
- McDonald's: fast food
- Coca-Cola: soft drinks
- Development Group USA: food processing, wine and media

- Lion Gri: wine
- Mary Kay: perfumes and cosmetics
- Avon: perfumes and cosmetics
- Lear Corporation: car seat covers
- Ford: car dealership
- Chevrolet: car dealership
- PricewaterhouseCoopers: auditing and tax advisory
- KPMG: auditing and tax advisory
- Deloitte: auditing and tax advisory
- Ernst & Young: auditing and tax advisory

TABLE 2: Key Macroeconomic data, U.S. FDI in Moldova

	National Bureau of Statistics		IMF	
Economic Data	Year	Amount	Year	Amount
Gross Domestic Product (GDP) <i>(Millions U.S. Dollars)</i>	2013	7,932.8	2013	n/a
Foreign Direct Investment	National Bank of Moldova		IMF	
U.S. FDI in Moldova <i>(Millions U.S. Dollars, stock positions)</i>	2012	152.87	2012	104
Moldovan FDI in the United States <i>(Millions U.S. Dollars, stock positions)</i>	2012	n/a	2012	n/a
Total inbound stock of FDI as % GDP	2012	46.04	2012	48.72

Source: <http://www.bnm.md>

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data
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From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	3,533	100%			
Russian Federation	785	22%			
Netherlands	561	16%			
Cyprus	290	8%			
France	270	8%			
Spain	252	7%			
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org>

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system with Germanic law influences; Constitutional Court review of legislative acts

International organization participation:

BSEC, CD, CE, CEI, CIS, EAEC (observer), EAPC, EBRD, FAO, GCTU, GUAM, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITU, ITUC (NGOs), MIGA, OIF, OPCW, OSCE, PFP, SELEC, UN, UNCTAD, UNESCO, UNHCR, UNIDO, Union Latina, UNMIL, UNMISS, UNOCI, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

Moldova has exchange controls governing capital transactions applying to capital market securities.

Treaty and non-treaty withholding tax rates

The Republic of Moldova has signed double taxation treaties with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Canada, China, Czech Republic, Estonia, Germany, Greece, Hungary, Italy, Japan, Kazakhstan, Latvia, Netherlands, Poland, Romania, Russian Federation, Switzerland, Tajikistan, Turkey, Ukraine, and Uzbekistan.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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