

ACADEMY OF SCIENCES OF MOLDOVA

Institute of Legal and Political Research

Center for Legal Research

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Policy brief

**REPUBLIC OF MOLDOVA – EUROPEAN UNION
ASSOCIATION AGREEMENT AT 1 YEAR AFTER
RATIFICATION**

Part II: Shortcomings and challenges

July 27, 2015



CHISINĂU – 2015

One year from signing the Association Agreement, the Republic of Moldova woke up in a situation when there are several shortcomings that seriously affect the implementation of measures of the EU-Moldova Association Agreement. Some of them are:

1. **Corruption.** According to the report of Transparency International "Corruption Perceptions Index 2014", Moldova ranks 103. And under TRACE Matrix Report - Global Business Bribery Compliance Risk Index for the Community, the Republic of Moldova's business corruption index ranks 130 out of 187. The situation has become so alarming that the Progress Report of the Republic of Moldova in the European Neighbourhood Policy in 2014, presented on 30 March 2015 by the Head of EU Delegation in Chisinau, Ambassador Pirkka Tapiola, shows that political and economic development of the Republic of Moldova is hampered by systemic and high level corruption. In such circumstances, it was an alarming signal that the Government of Moldova, on June 16, 2015 rejected the package on reforming the National Integrity System (the package includes: a) draft law on declaration of assets and personal interests; b) the draft law on the National Integrity Centre; c) the draft law amending and supplementing certain acts). It is an alarming signal in sense that combating corruption (primarily among political elites and civil servants) and the reform of the National Commission for Integrity is a priority for the European Union that it is able to affect the further financial and technical assistance of Moldova.
2. **Justice.** We could bring multiple evidences that the Moldovan justice is an area that is affected by serious problems. We believe that it is sufficient to refer to the Global Competitiveness Report (The Global Competitiveness Report 2014), according to which Moldova was ranked last - 144 out of 144 countries in a global ranking of corruption in the judiciary. The theme of corruption and lack of reforms in justice and in the judicial case was the subject of various interventions of the accredited ambassadors in Moldova (the US and EU ambassadors interviews to Moldova are relevant in this respect). In the analyzed period most criticized area by diplomats from the European Union was the prosecutor's office. In such conditions, the adoption at first reading the draft Law on Prosecution (May 2015) is a much awaited measure that also came very late and without clear prospects for immediate completion.

3. **Banking sector:**

- 3.1. Three local commercial banks as „Banca de Economii” S.A., BC „Banca Socială” SA and BC „Unibank” SA. were involved in embezzling \$1bn – a sum equivalent to 15-20% of the republic’s GDP.
- 3.2. There is also a lack of concrete actions and visible efforts of the Moldovan authorities to investigate the disappearance of billions.
- 3.3. It is true that there was audit report conducted by international audit company Kroll Associates UK Limited. But in the month of May 2015 was to be the second international tender for selecting a company that would be conducted investigations necessary to establish the whereabouts of missing financial amounts, which it has not happened.
- 3.4. Several independent investigations have established that in recent years (2010, 2011, 2013 and 2014), the audit of commercial banks: „Banca de Economii” S.A., BC „Banca Socială” SA and BC „Unibank” SA. was conducted by Audit Company "Grant Thornton Audit" Ltd., administrated until recently (its branch Moldovan’s branch) by the current Minister of Economy of the Republic of Moldova - Stephane Bride. Accordingly, there is reason to raise doubts about the quality of services provided by the company itself or if the “Grant Thornton Audit” even alerted the Moldovan Government – there was no visible reaction from the competent authorities of the state.
- 3.5. The situation became more dramatic as of June 12, 2015, when the National Bank has set up special surveillance measures to the three largest commercial banks in the country - „Moldova Agroindbank” S.A., „Victoriabank” S.A. and „Moldindconbank” S.A.
- 3.6. A further agitation of spirits has sparked when Moldovan authorities declared intention to nationalize „Banca de Economii” S.A.

4. **External funding.** The first anniversary of the Moldova-EU Association Agreement coincided with some bad news and bad signals for our country. Just a few examples:

- 4.1. In May 2015, the International Monetary Fund conditioned the resumption of lending to Moldova with liquidation of the banks involved in the disappearance of over \$1bn and mentioned in Kroll report: „Banca de Economii” S.A., BC „Banca Socială” SA and BC „Unibank” SA.

- 4.2. In June, 2015, the World Bank decided to block the financial relations with Moldova, which means that our country will not receive budgetary support worth \$45 million.
- 4.3. In July 2015 the European Union decided to freeze financing for the Republic of Moldova. The European money (40,7 million Euro) will reach the Moldovan budget when authorities from Chisinau will negotiate a financing agreement with the International Monetary Fund and will solve the crisis from the banking sector.
- 4.4. In June 2015 the Swedish Embassy in Chisinau has decided to suspend a grant worth 2.4 million Euros intended to advance the process of reforming the Interior Ministry.
5. **Lack of visible positive effects** on the implementation of the Moldova-EU Association Agreement. Both Moldova and the EU have not covered (or didn't have what to advertise) the major achievements after one year since the signing of the EU-Moldova Association Agreement. In fact, some European Union's official web pages mentioned some modest positive effects for Moldovan citizens: "...Moldova's exports to the EU increased by 20% last year, growing faster than general trade, which went up by 8%", "...the EU helped Moldovan farmers to give 80 tons of apples to public institutions..."

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