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THE REPUBLIC OF MOLDOVA

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## Letter with regard to Development Policy

To the attention of Mr. Jim Yong KIM  
President  
World Bank  
1818 H Street NW  
20433 Washington D.C.

### Moldova Economic Governance Development Policy Operation

Dear Mr. Kim,

On behalf of the Government of Moldova, I have the pleasure to submit to you the Policy Document for the Economic Governance Development Policy Operation. This Operation will help Moldova's efforts to increase the sustainability and transparency of the public sector and implement key reforms for levelling the playing field for private sector development.

Moldova's economy maintained the growth momentum. Following the 2015 recession, the economy of the Republic of Moldova recovered towards its trend. In 2017, investment in fixed assets increased, the public revenues and expenditures grew double digit, and foreign trade intensified. There are positive developments in the real sector such as in industry, agriculture, transport services. The real increase of the average monthly salary and the increase in remittances from abroad have led to higher consumption. Moreover, our fiscal policy remains characterized by low fiscal deficit while we focus on prioritizing public investments and social spending.

Supported by consumption, Gross Domestic Product increased by another 4.5 percent in 2017, supported by a strong domestic demand and a positive external environment. Domestic demand increased sharply, largely driven by private consumption and investment growth, that became positive for the first time since the 2014 crisis. Stronger domestic demand was offset by negative net trade, with imports outweighing the export's dynamics.

Poverty reduction is a key priority of the Government of the Republic of Moldova. Progress in poverty reduction is achieved through the consistent, efficient and coordinated implementation of economic and social policies capable of generating sufficient employment and ensuring a high degree of social inclusion for all members of society. Particular attention is paid to the development of employment programs and social support for the population, as well as measures to develop small and medium-sized businesses and modernize agriculture.

In December 2017 the National Bank of Moldova (NBM) published a detailed summary of the banking fraud investigation received along with the second report of the Kroll and Steptoe & Johnson companies

In March 2018, after receiving the final investigation report of Kroll and Steptoe & Johnson, the National Bank of Moldova transmitted all investigation documents of the international consortium to the Anti-Corruption Prosecutor's Office, which will serve as basis for asset recovery.

Moldovan competent authorities are determined to take all necessary steps to recover the embezzled funds. Thus, in alignment with the commitments undertaken towards other external donors as well, a Recovery Strategy in this regard will be developed and implemented.

To help anchor the reforms, in November 2016, Moldova signed an Agreement with IMF on a reform program supported by a three-year Extended Credit Facility and Extended Fund Facility arrangement. On December 20, 2017, the Executive Board of the IMF concluded the Article IV consultation and the second review under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements for the Republic of Moldova. By now Moldova has received from IMF 57.4 million SDR.

The reforms supported by the Moldova Economic Governance Development Policy Operation are in line with the National Development Strategy "Moldova 2020" and based on the World Bank Country Partnership Framework for the period July 2018-July 2021.

Currently a new strategy Moldova "2030" is under discussion. NDS "Moldova 2030" will be a long-term vision document, which will contain 10 priorities according to the following areas: economic sector; regional and rural infrastructure and development; labor market; education; health; social protection; equal opportunities, personal development and family life; justice and public administration; public order and environmental protection.

Supported by this program and dedicated World Bank technical assistance, the Government of the Republic of Moldova has undertaken a number of policy actions aiming at improving the governance issues:

#### **I. Reducing fiscal risks**

##### ***Action 1:***

To increase the efficiency and the fairness of the pension system, we enacted amendments to the legislative framework on public pensions through the introduction of the new calculation and indexing formula, introduction of a valorization mechanism, increase in retirement age and the abolition of special pension schemes as approved by the Law no.290 of 16.12.2016 (published in the Official Gazette of the Republic of Moldova, no. 478-490/964 of 30.12.2016) amending and supplementing certain legislative acts. At the same time, for the implementation of the respective law, the Government Decision no. 165 of 21.03.2017 and no. 287 of 04.05.2017 were approved.

##### ***Action 2:***

The Law no. 288 of 15.12.2017, regarding the modification and completion of some legislative acts (concerning fiscal and customs policy for the year 2018) (published in the Official Gazette no. 464-470 art. 808 of 29.12.2017) regulated the increase of the excise quota for tobacco products and petroleum products in order to reach the minimum set by the EU Directives. Starting with 2018, the specific quota for filter cigarettes increased from 360 lei to 410 lei, and the minimum excise from 480 lei to 540 lei. Also, a significant increase in excise duty was made for non-filter cigarettes, with a specific quota increasing from 120 lei to 260 lei for oval ones and up to 300 lei for those with a mouthpiece. At the same time, for non-filter cigarettes, for the first time, the ad-valorem component was 3%.

##### ***Action 3:***

In order to enhance the transparency and oversight of SOEs the law on the state enterprise and the municipal enterprise was enacted on December 22, 2017, along with the law the audit of financial statements enacted on January 12, 2018 and the law accounting and financial reporting enacted on January 05, 2018. The results of these legislative changes will transpose in equaling the regulatory framework for the activity of the municipal enterprises with the state-owned enterprises. As a consequence, mandatory audit for certain categories of municipal enterprises are now required. Previously, the legislation did not provide for any

mandatory rules for auditing financial statements in municipal enterprises. Additionally, new reporting rules are implemented for the activity of both state and municipal enterprises. According to the new legislation, all financial and audit information should be made publicly available.

***Action 4:***

In order to strengthen the asset declaration regime, the amendments to the Law on the National Authority of Integrity, Law on the declaration of property and personal interests, Criminal Code and Contravention Code were enacted. The main scope of this actions is to: eliminate the deficiencies and inconsistencies allowed in the process of promoting and adopting the integrity package in 2016 and increase the efficiency and impact of the property and wealth declaration system; enhance the integrity and transparency in the public sector; prevent and fight acts related to corruption. In the process of strengthening the asset declaration regime, Moldovan authorities ammended the provisions of the Criminal and Contraventional Code to ensure that sanctions related to conflict of interest and asset declarations violotations are enforced and dissuasive. Moreover, auctorities adopted a regulation on methodolgy for verification of asset declarations and conflict of interest that are mandatory to be submitted online thouth the electronic portal „e-Integrity”. The official launch of the e-Integrity Information System was realized on December 28, 2017. Up to March 31 2018, through the information system "e-Integrity" for submitting and verifying on-line the declarations of assets and personal interests, available on the ANI website were submitted approximately 58080 statements, digitally signed and available to the public wide, except for personal data.

## **II. Leveling the playing field for private sector development**

***Action 5:***

In order to reduce the list of required licenses, authorizations and certificates for the private sector development, the Law no.185 of 21.09.2017 was enacted and 270 permissive acts were abolished, which allowed the administrative burden to be reduced by about 70%. The total existing permissive documents is 149. Moreover, the Government is working on the creation of the Electronic One-Stop-Shop for Permissive documents issuance which will support on-line application, processing and issuance of licenses, authorizations and certificates.

***Action 6:***

In order to simplify the domestic mandatory requirements for testing and registration for EU-registered agricultural inputs, the amendments to legislation were enacted. The amendments contain provisions favoring the real liberalization of the agricultural markets for seeds and seedlings through elimination of compulsory testing procedures for these products registered in the EU catalogues. In order to facilitate the placing on the market of authorized plant protection products in EU countries and for the fertilizers marked "CE fertilizer", the Law no.119/2004 was modified by the Law no. 245 which was adopted on 23.11.2017 and published in the Official Gazette no.1-6/6 of 05.01.2018. Upon the approval of the primary laws setting up the foundation of important reforms in the agricultural input markets, the Government of Moldova is committed to put in place the needed implementation arrangements so that the private sector can truly benefit from the enacted reforms.

***Action 7:***

In order to strengthen banks corporate governance, internal controls and risk management practices, in June 2017, the National Bank of Moldova approved the Regulation on Internal Governance and Risk Management in Banks as a first step in ensuring effective corporate governance. Later on, in October 2017, the new Law on banking activity was approved by the Parliament and entered into force on January 1, 2018, transposing Basel III principles and further strengthening corporate governance provisions. During the onsite inspections carried out by the NBM (since June 2017) in four banks, the fifth being underway, it was

established that banks mostly comply with the provisions of the above-mentioned Regulation, with minor deviations noted. Moreover, all banks report on regular basis, once in two months, about the progress achieved in the execution of the individual strategies for the implementation of the Basel III principles, including alignment to the requirements set out in the Law on banking activity and the Regulation on Internal Governance and Risk Management.

Thus, following the improvement of the legal framework on corporate governance, banks are attesting a conscious and mature attitude towards its implementation, by undertaking the following:

- engaging consulting firms for specialized assistance in Basel III framework implementation and setting up of working groups in this regard;
- amending their internal regulatory frameworks;
- setting up specialized committees of the banks' Boards of Directors (audit, risk, nomination and remuneration committees);
- self-evaluating the collective suitability of their management bodies (Boards of directors and executive management) in terms of knowledge, skills and relevant experience, etc.

**Action 8:**

On the basis of the Guidelines for the Annual Procurement of Electricity, approved by Ministry's Order No. 5 of 05.01.2016, the electricity market operators signed on March 31, 2017 contracts with JSC „Energocom”. In order to improve transparency and competition in the wholesale electricity market tender related materials are publicly available on the official web pages of almost all electricity market operators JSC „Furnizare Energie Electrică Nord”, JSC „RED Nord-Vest”, JSC „RED Nord”, SoE „Moldelectrica”. Since June 07, 2017 the sources of supply were diversified, JSC „Energocom” signing a new contract with JSC „MGRES”. The supply ratio, between DTEK Trading Company (Ukrainian Power System) and JSC „MGRES”, is 30:70. Consequently, at the moment, according to the signed contract, the share of electricity was acquired competitively is more than 75%.

With reference to the electricity acquisition for the next period – from April, 2018 to March, 2019, according to the new Guidelines, for the Annual Procurement of Electricity (approved by Ministry's Order No. 31 of 30.01.2018) all electricity market operators have carried out the tendering procedure during the period January-March 2018. Therefore, on March 14, 2018 all market operators have concluded and signed, electricity acquisition contracts with the JSC „Energocom”, as the best offeror. Thus, JSC „Energocom” has disclosed that the electricity needs of the Republic of Moldova will be covered from two sources, as follows – 70% from the JSC „MGRES” and 30% from the DTEK Trading Company.

Finally, I take this opportunity to assure you that the Government is fully determined and dedicated to its commitment to continue actions and reforms that are required to improve key areas and in particular the performance of economic governance. Taking into consideration that the proposed operation is a key component of the Moldova Country Partnership Framework for FY18-21, the Government expresses its commitment and willingness to sustain progress achieved by the prior actions supported by this Operation and described in the Policy and Result Matrix. I have full confidence that the Republic of Moldova can count on continuous support from you personally and from the World Bank.

Sincerely yours,



**Octavian ARMASU**  
**Minister**