Moldova

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Moldova	
Sanctions:	None
FAFT 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)

Major Investment Areas:

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

Investment Restrictions:

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 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: complia nce 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 (CPC). 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, unfreezing 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 l egislation 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 comp rehensive 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 M arket (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 pro vides 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 superviso ry 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.

Lega l 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 t reaty, 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 2016 (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 subjected to sex and labor trafficking within Moldova and in Russia, Ukraine, and other countries in Europe, the Middle East, Africa, and East Asia. Women and children are subjected to sex trafficking in Moldova in brothels, saunas, and massage parlors. Increasingly, girls aged 13 to 15 are victims of sex trafficking. Child sex tourists, including from the EU, Australia, Israel, Thailand, and the United States, subject Moldovan children to commercial sexual exploitation. The breakaway region of Transnistria remains a source for victims of both sex and labor trafficking. Official complicity in trafficking is a significant problem in Moldova.
The Government of Moldova does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Corruption, particularly in law enforcement and the judiciary, impeded prosecutions and influenced the outcomes of cases, including cases against complicit officials. The judiciary often imposed sentences on convicted traffickers that did not correspond with the severity of the crime, including fines alone, and at times reversed convictions on appeal. Legal and organizational obstacles, including changes in the national anti-trafficking investigative body, hampered law enforcement efforts. Authorities identified and assisted more victims, but victims continued to suffer from intimidation. Prosecutors charged some victims with crimes committed as a direct result of their trafficking.

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.

Bribery & Corruption

Index	**Rating (100-Good / 0-Bad)**
Transparency International Corruption Index	31
World Governance Indicator – Control of Corruption	14

Moldova's business environment is one of the most challenging in the region and is weakened by pervasive government corruption and a burdensome regulatory environment. The government lacks transparency, and Moldova's public officials commit acts of corruption with impunity. The judiciary is one of the weakest in the world in relation to independence from the political elite, and judges and prosecutors regularly extort bribes in exchange for reducing charges or imposing milder penalties. International companies pay bribes and kickbacks to obtain construction permits and operating licenses and to secure government contracts. Moldova's Criminal Code prohibits active and passive bribery, extortion, abuse of office, bribery of foreign public officials and trading in influence. However, Moldova's anti-corruption legislative framework is deficient as a result of inadequate financing and monitoring and a general lack of resources. Facilitation payments are often expected when operating in Moldova and are not addressed in law. **Information provided by GAN Integrity.**

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 productive farmland, Moldova's economy relies heavily on its agriculture sector, featuring fruits, vegetables, wine, and tobacco. Moldova also depends on annual remittances of about $1.12 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 more than $5 billion debt to Russian natural gas supplier Gazprom, largely the result of unreimbursed natural gas consumption in the breakaway region of Transnistria. Moldova and Romania inaugurated the Ungheni-Iasi natural gas interconnector project in August 2014. The 43-kilometer pipeline between Moldova and Romania, allows for both the import and export of natural gas. Several technical and regulatory delays kept gas from flowing into Moldova until March 2015. Romanian gas exports to Moldova are largely symbolic. Moldova hopes to build a pipeline connecting Ungheni to Chisinau, bringing the gas to Moldovan population centres.

The government's stated goal of EU integration has resulted in some market-oriented progress. Moldova experienced better than expected economic growth in 2014 due to increased agriculture production, to economic policies adopted by the Moldovan government since 2009, and to the receipt of EU trade preferences. Moldova signed 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, a $1 billion asset-stripping heist of Moldovan banks in late 2014 delivered a significant shock to the economy in 2015; a subsequent bank bailout increased inflationary pressures and contributed to the depreciation of the leu. Moldova's growth has also been hampered by endemic corruption and a Russian import ban on Moldova's agricultural products.

Over the longer term, Moldova's economy remains vulnerable to corruption, political uncertainty, weak administrative capacity, vested bureaucratic interests, higher fuel prices, Russian political and economic pressure, and unresolved separatism in Moldova's Transnistria region.

Agriculture - products:

vegetables, fruits, grapes, grain, sugar beets, sunflower seeds, 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:

Romania 23.1%, Italy 10.2%, Turkey 9.4%, Russia 8%, Germany 6.6%, Belarus 6.4% (2015)

Imports - commodities:

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

Imports - partners:

Russia 22.7%, Romania 18.1%, Ukraine 11.5%, Germany 7%, Italy 4.8%, Turkey 4.4% (2015)

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.

Section 4 - Investment Climate

Executive Summary

Former Soviet republic Moldova has made some progress towards adopting the principles of a free-market democracy since its independence in 1991, but still has significant shortcomings in its investment climate. Political turmoil in 2015 unseated the government and highlighted major shortcomings in Moldova's business environment, public and private institutions, rule of law, and practices at odds with the officially declared support for reform and increased foreign direct investment.

The current government has reiterated its support for reforms, but its efforts have not yet had a major impact on the widespread perceptions of a recent massive bank fraud, political instability, and pervasive corruption that have undermined trust in the state and political-economic institutions.

In June 2014, Moldova signed an Association Agreement with the European Union (EU), including a Deep and Comprehensive Free Trade Agreement (DCFTA), committing the government to a course of reforms to bring its governmental, regulatory, and business practices in line with EU standards. Moldova hopes that implementation of the DCFTA will integrate it further into the European common market and create more opportunities for investment in Moldova as a bridge between Western and Eastern European markets.

After political volatility stalled reforms in 2015, a Democratic Party-led parliamentary majority installed a new government in early 2016 which declared its intent to pursue greater integration with the EU. The government has published a roadmap of priority actions it says it will implement by July 31, 2016. These include judicial reforms, public administration restructuring, measures ensuring independence of financial and banking regulators, bank fraud investigations, and enhanced regulatory transparency. These are measures that the EU previously identified as requirements for further integration and donor support, but do not constitute a comprehensive reform plan.

The business climate is challenging. Although the many underdeveloped sectors offer opportunities, investors should proceed with caution. While a number of large foreign companies have taken advantage of tax breaks in the country's free economic zones, foreign direct investment remains low. Finance, automotive, light industry, agriculture, food processing, wine, and real estate have historically attracted foreign investment. The National Strategy for Investment Attraction and Export Promotion 2016-2020 identified seven priority sectors for investment and export promotion: agriculture and food, automotive, business services such as business process outsourcing (BPO), clothing and footwear, electronics, information and communication technologies (ICT), and machinery.

The Moldovan government has also identified 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 government will set out a new 2016-2018 action plan for a business regulatory framework reform to facilitate day-to-day business activity.

The major investment climate concerns in 2016 include political uncertainties related to presidential elections scheduled for October 30, the lack of public trust in the government as well as public and private institutions, the economic downturn resulting from Moldova's 2014 banking crisis, continuing fragility of the banking sector, and instability in the wider region.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	103 of 168	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	52 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	44 of 143	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2015	44.94	National Bank of Moldova
World Bank GNI per capita	2014	USD 2,560	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

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 per capita gross national income (GNI) of USD 4,125 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. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness to, and Restrictions Upon, Foreign Investment

Attitude Toward Foreign Direct Investment

Moldova, one of the poorest countries in Europe, relies heavily on foreign trade and remittances from its workers abroad for its economic growth. Under Moldovan law foreign companies enjoy national treatment in most respects. In principle, the government views FDI as vital for sustainable economic growth and poverty reduction. However, the amount of FDI received is far below what Moldova needs to create jobs and promote economic growth.

Moldova enjoyed a period of increased FDI with eastward expansion of the EU into Romania on January 1, 2007. However, the 2008 global financial crisis significantly decreased FDI in

Moldova, which has yet to return to pre-crisis levels. Remittances have also not regained their 2008 levels and have been falling further in recent years, reflecting slower growth in the region and the falling value of the Russian ruble (most remittances are from workers paid in Russian rubles.)

Moldova's development path in recent years has been guided by agreements with the EU for reforms in trade policy and the judiciary. Following the expiration of a Moldova-EU Action Plan in 2008, Moldova negotiated its Association Agreement with the EU, which was signed in June 2014. Moldova hopes the Association Agreement will bring closer political association and economic integration with the EU. The DCFTA, a component of the Association Agreement, provides for mutual elimination of customs duties on industrial and most agricultural products and for further liberalization of the services market. It also addresses other barriers to trade and reforms in economic governance, with the goal of strengthening transparency and competition and adopting EU product standards. Moldova hopes to eventually join the common EU market.

As a country with a small economy, Moldova hopes a liberalized trade and investment strategy will increase 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 is the country's largest export destination, absorbing about half of all Moldovan exports. The EU extended Autonomous Trade Preferences to Moldova in 2008. In September 2014, the DCFTA supplanted the Autonomous Trade Preferences regime. Since September 2013, Moldova has faced a Russian ban on its alcoholic beverage exports. Furthermore, soon after ratification of the Association Agreement and DCFTA by Moldova, Russia imposed additional trade bans seriously affecting Moldova's exports of fruit, canned products, and fresh and processed meat.

The government has approved an activity program for 2016-2018 that centers on EU integration, with the ultimate goal of applying for EU membership. The program also sets economic development, creation of well-paid jobs, elimination of corruption, and rule of law among key objectives. The government also approved an Action Plan for the implementation of the Moldova-EU Association Agreement and DCFTA in October 2014. The government has identified in its national development strategy "Moldova 2020" seven priority areas for development and reform: education, access to financing, road infrastructure, business regulation, energy efficiency, justice system, and social insurance. The government has made a formal commitment to accelerate the country's development by making the economy more capital-intensive, sustainable, and knowledge-driven.

Other Investment Policy Reviews

The United Nations Conference on Trade and Development (UNCTAD) conducted an Investment Policy Review of Moldova, published in 2013 and which can be accessed at http://unctad.org/en/Pages/DIAE/Investment%20Policy%20Reviews/Investment-Policy-Reviews.aspx.

Moldova was last subject to a trade policy review published in October 2015 and can be accessed here https://www.wto.org/english/tratop_e/tpr_e/s323_e.pdf.

Laws/Regulations on Foreign Direct Investment

In addition to its international agreements, Moldovan laws affecting FDI include 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 in 2004. It was designed to be compatible with European standards in its definitions of types of local and foreign investment. It provides guarantees of investors' rights, non-application of expropriation or similar actions, and for payment of damages if investors' rights are violated. The law permits FDI in all sectors of the economy, while certain activities require a business license.

Over the years, the Moldovan government has lowered tax rates, strengthened tax administration, increased transparency, and simplified business regulations. Nevertheless, decision-making remains opaque and the application of laws and regulations inconsistent. Popular perceptions of widespread corruption remain a big concern. The political uncertainties of recent years highlighted fundamental problems with the business environment. In 2013, the controversial concession of the Chisinau International Airport and de facto privatization of one of Moldova's largest banks, Banca de Economii, raised questions about the transparency, fairness, and legality of government practices. A subsequent massive banking crisis, which erupted in late 2014 and ultimately led to the bankruptcy of three key banks, cast light on apparent institutional corruption and weak financial and banking regulations.

A general description of laws and regulations as they relate to foreign businesses in Moldova can be found at www.miepo.md.

Business Registration

Business registration is overseen by the Moldovan State Registration Chamber, which keeps the State Register of Legal Entities and Individual Entrepreneurs. By law, registration should take five days for a standard procedure or four hours for an expedited procedure and is done in two stages. The first stage involves submission of an application and a set of documents, the range of which may vary depending on the legal form of the business (LLC, joint-stock company, sole proprietorship, etc.). At the second stage, the State Registration Chamber issues a registration certificate and a unique identification number for the business, conferring full legal capacity to the entity. In 2010, the government introduced the "one-stop-shop" principle, under which businesses are relieved of the requirement to register separately with fiscal, statistical, social security, or health insurance authorities. There are currently no procedures for online business registration.

In March 2006, the Moldovan Parliament ratified the 1961 Hague Convention on Abolishing the Requirement for Legalization for Foreign Public Documents. Acceptance of U.S. apostilles applied on official documents simplifies the legalization of official documents issued in the United States that are required in the process of business registration.

Moldova has an investment promotion agency called Moldovan Investment and Export Promotion Organization (MIEPO) to assist prospective investors with information about business registration or industrial sectors, facilitate contact with relevant authorities, and organize study visits. MIEPO has an investment guide available on its website www.miepo.md.

Moldovan law establishes criteria defining businesses as micro, small or medium-sized enterprises. The legal definition of a microenterprise is a business which has nine employees at most, an annual sales figure of not higher than MDL 3 million (USD 150,000) and total balance sheet value of assets not higher than MDL 3 million (USD 150,000). A small business has no more than 49 employees, annual sales of under MDL 25 million (USD 1.3 million) and total of assets under MDL 25 million (USD 1.3 million). A medium-sized business has no more than 249 employees, earns less than MDL 50 million (USD 2.5 million) in annual sales and assets less than MDL 50 million (USD 2.5 million).

In 2007, the Moldovan government set up a special agency called the Organization for Small- and Medium-Size Enterprise (SME) Development (ODIMM), whose mission is to support SME development through government programs and international projects. ODIMM runs consultancy programs, trainings, an investment matching program, and a loan guarantee fund. It also seeks to establish business incubators throughout the country. ODIMM's programs are generally available to locally-registered SMEs regardless of the country of origin of the investment. Certain programs, however, have eligibility criteria specifically targeting holders of Moldovan citizenship.

Industrial Promotion

The Moldovan Investment and Export Promotion Organization (MIEPO) promotes agriculture, automotive, ICT, medicine, renewable energy and textiles as industries attractive for foreign investment. Information on the sectors can be found on the MIEPO gateway http://miepo.md/sectors.

Limits on Foreign Control and Right to Private Ownership and Establishment

There are no formal limits on foreign control, except that foreigners are expressly prohibited from owning agricultural or forestry land. Under Moldovan law, foreign companies enjoy national treatment in most respects. 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 and rules out discriminatory measures hindering 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.

Privatization Program

Moldova launched the first of several waves of privatization in 1994. In 2007, Parliament passed a new law governing management and privatization of state-owned assets. Two major privatizations in 2013 – of the then-largest bank, Banca de Economii, and the 49-year concession of the Chisinau Airport – subsequently proved highly controversial. Privatization efforts in 2014 and 2015 emphasized public-private partnerships as means for companies to gain access to state-owned resources in infrastructure-related projects. As of early 2016, the government was floating plans for privatization of additional state assets.

Moldova conducts privatizations through open tenders organized at the stock exchange that are open to any interested investor. However, some investors have complained that the privatizations are unfair and lack transparency.

Screening of FDI

There is no screening of foreign investment in Moldova. Legislation permits 100-percent foreign ownership in companies, except for laws prohibiting companies in questionable tax havens from holding shares in commercial banks and restrictions on foreign ownership of agriculture and forestry lands. By statute, special forms of legal organizations and certain activities require a minimum of capital to be invested (e.g., MDL 20,000 (USD 1,000) for joint stock companies, MDL 15 million (USD 750,000) for insurance companies, and MDL 100 million (USD 5 million) for banks).

Competition Law

The government established a National Competition Agency in 2007. However, foreign investors accused the agency of abuse, lack of experience, and flawed antitrust legislation after they were singled-out for investigations. As a result, in 2012, Parliament passed a new law on competition that was consistent with EU practice and legislation. The National Competition Agency was subsequently renamed the Competition Council. The Competition Council oversees compliance with competition and state-aid provisions and initiates examination of alleged violation of competition laws. The Competition Council may request cessation of action, prescribe behavioral or structural remedies, and apply fines.

2. Conversion and Transfer Policies

Foreign Exchange

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 fund transfers are not subject to any other duties or taxes, and do not require special permission. No significant delays in the remittances of investment returns have been reported, while domestic commercial banks have accounts in leading multinational banks. Foreign investors enjoy the right to repatriate their earnings.

Remittance Policies

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

The Moldovan leu (plural, lei) 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 on the territory of Moldova. Generally, there are no difficulties associated with the exchange of foreign or local currency in Moldova.

After a tumultuous period of inflation and devaluation of the 1990s, the local currency has entered a period of relative stability punctuated by periods of volatility and depreciation due to economic shocks of domestic or foreign origins.

In 2014, the downward trend of the leu continued and accelerated as shocks from recession, regional political and economic instability, and uncertainties in the domestic banking sector had a significant negative impact. The currency's depreciation continued into 2015 as the difficult economic and political environment, along with Russian bans on Moldovan food exports and falling remittances from Russia, impacted Moldova's balance of payments. A massive banking fraud and a subsequent bailout program have further undermined the leu. In 2015, the MDL started the year at 15.62 to the US dollar and finished at 19.66, an almost 26 percent drop in value.

Moldova is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force-style regional body.

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. However, an investment may be expropriated if the expropriation is done for purposes of public utility, is not discriminatory, and is done with just compensation. If a public authority violates an investor's rights, the investor is entitled compensation equivalent to the actual damages at the time of occurrence, 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 indication 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. There are reportedly 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 reportedly 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 the land.

Since 2001, the government 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, investors have had to apply to the European Court of Human Rights (ECHR) to enforce compensation payments. The government 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 Transnistria. Also, Moldova 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

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Moldova has a civil law legal system with codified laws that govern different aspects of life, including business, trade and economy. The country's legal framework consists of its constitution, organic and ordinary laws passed by the parliament and normative acts issued by the government and other public authorities. Moldovan courts are nominally independent from government and political interference, but suffer from low efficiency and lack of popular trust.

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 who may apply measures that put domestic producers at an advantage in relation to 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 government may cite public security or general social welfare as reasons to intervene in the economy in contravention of its declared respect for market principles.

Starting 2003, the court system has undergone several changes that eliminated economic courts, which were seen as fertile soil for corruption, and currently consists of lower courts (i.e. trial courts), four courts of appeal, and the Supreme Court of Justice.

Moldova has in place a Justice Sector Reform Strategy running through 2016. Part of the Strategy's Action Plan are actions aimed at restructuring the court system, prosecution, and other law enforcement agencies; establishing zero-tolerance policies towards corruption; integrity and polygraph testing of justice sector officials; and creating a strong ethics framework. To improve the investment climate, the government included a pillar within the Justice Sector Reform Strategy entitled "the Role of Justice in Economic Development." The objective of this pillar is to identify and implement actions to help create a favorable environment for a sustainable development of the Moldovan economy. Actions under this objective target three strategic directions: strengthening the system of alternative dispute resolution, improving insolvency procedures, and modernization of the company registration system. These actions seek to counter prevalent perceptions of widespread corruption in Moldova's justice sector and law enforcement.

Bankruptcy

In terms of resolving insolvency, the World Bank ranks Moldova 60th out of 158 economies in 2015. Moldova scores above the regional average but trails EU members in central and eastern Europe. The country has changed its insolvency law to grant priority to secured creditors and to ease insolvency proceedings by introducing new restructuring mechanisms, reducing opportunities for appeals, adding moratorium provisions, establishing strict statutory periods in the proceedings and enhancing the role of insolvency administrators.

Investment Disputes

Moldova has a record of disputes over past privatizations involving foreign investors. The government cancelled some privatizations because of alleged irregularities in the privatization procedures or the alleged failure of investors to meet an investment timetable. In some instances, foreign investors had to appeal to the EU courts to seek justice. Some businesses have alleged they became targets of criminal investigations due to the owners' political affiliation, while local media often report excessive red tape and arbitrary decisions made by government agencies, police, or tax authorities. Businesses from time to time allege unwarranted inspections and harassment by various authorities. Investors have indicated they have low confidence in the legal system and, in some cases, feel victimized by irregularities in the judicial process.

International Arbitration

The government 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. Despite such provisions in the law, there were cases when local courts tried to limit business litigation to local jurisdiction.

Moldova has enjoyed normal trade relations with the United States since its independence. 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. The GSP program is designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 5,000 products from 122 designated beneficiary countries and territories.

ICSID Convention and New York Convention

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.

Duration of Dispute Resolution – Local Courts

The legal framework for dispute resolution consists of the Law on Arbitration (2008), the Law on International Commercial Arbitration (2008) and the Law on Mediation (2007). The Law on Arbitration says that certain contracts are not subject to arbitration such as those concerning rental of housing space, while the arbitration clause needs to be concluded in writing for it to be valid. Under the same law, parties may still have recourse to courts even though a final arbitration decision was made. Moldova's Chamber of Commerce and Industry established an International Commercial Arbitration Court for commercial arbitration to help settle disputes regarding foreign trade and investment.

According to World Bank surveys, it takes 19 months on average to resolve a commercial dispute in Moldova.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Moldova has been a member of the WTO since 2001 and, as such, is a signatory to the General Agreement on Trade in Services (GATS), the Agreement on Trade Related Investment Measures (TRIMs) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These agreements contain major investment-related provisions, such as opening to the establishment of foreign service providers, prohibition of local-content, trade-balancing and domestic-sales requirements (TRIMs), and protection of intellectual property of investors (TRIPS). No major inconsistencies with WTO TRIMS have been reported.

Investment Incentives

Investment incentives are applicable on all Moldovan-registered businesses irrespective of the country of origin of the investment. Certain incentives apply only in specially-designated areas such as free economic zones and industrial parks (see Section 16: Foreign Trade Zones/Free Ports/Trade Facilitation). In 2012-2016, employees of Moldovan IT companies benefit from incentives on personal income tax and social security contributions. There is also a range of tax incentives applicable if businesses meet certain requirements. Among those incentives are the following: value-added tax (VAT) and customs exemptions on long-term assets included in share capital; deferment of VAT liabilities on imports of materials used in manufacturing export-bound products; and lower social contributions and VAT rates for agricultural businesses.

Research and Development

Most research and development programs are carried out by the government-funded Academy of Sciences. Post, however, is not aware of any restrictions for foreign firms to participate in such programs or any major research and development programs.

Performance Requirements

All incentives are applied uniformly to both domestic and foreign investors. The Law on Investment in Entrepreneurship, in effect since 2004, does not protect new investors from legislative changes.

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, experienced management, and technical expertise such as energy or telecommunications, the government has showed preference for experienced foreign investors over local investors. In 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 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 government has 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.

Data Storage

Post is not aware of any reports of forced localization or special requirements targeting foreign IT providers. The Ministry of Information Technology and Communication is responsible for developing strategies and policies on electronic communication, while the National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI) has functions of regulations and oversight.

6. Protection of Property Rights

Real Property

Moldova has laws that formally protect all property rights. 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 fully guarantee the rights of citizens and foreign investors. Instances of judicial malfeasance in recent years have involved dubious proceedings in lower courts that resulted in illegal dispossessions of local and foreign investors of shares in Moldovan financial institutions.

Intellectual Property Rights

Moldova does not fully enforce its IPR laws due to conflicts of interest, lack of resources, and a low level of awareness and training among law enforcement agencies. However, intellectual property protection is improving.

The country has an agency for the protection of copyrights, the State Agency on Intellectual Property (AGEPI), which continues working on improving the legal framework and adjusting it to EU norms, increasing public awareness, and building capacity in law enforcement. Following Moldova's adoption of DCFTA with the EU in June 2014, AGEPI participated in negotiations on the IPR chapter of the agreement with the objective of ensuring a level of protection for intellectual property rights in Moldova similar to that in the EU, including effective enforcement. AGEPI agreed on a 2014-2016 DCFTA implementation Action Plan to fulfill Moldova's IPR obligations under the agreement. In 2015, Moldova adopted the second Action Plan on the implementation of the National Strategy on Intellectual Property through 2020 for IPR enforcement.

In addition, Moldova has a National Commission for Intellectual Property chaired by the Deputy Prime Minister and Minister of Economy, which meets regularly. In 2011, AGEPI created the Observation Group on the Enforcement of Intellectual Property Rights, based on European experts' recommendations. The group's objectives include supporting data exchange between authorities responsible for the enforcement of intellectual property rights, as well as generating analytical and statistical studies in the field.

The Customs Service, with the technical assistance of the European Union Border Assistance Mission (EUBAM) in Moldova, prepared two tranches of changes to the Moldovan legal code to harmonize it with EU law, specifically EU regulation number 608/2013 concerning customs enforcement of intellectual property rights. The parliament passed the first tranche of six proposed modifications to the laws in 2014 and received the remaining five modifications that are awaiting parliamentary approval. According to AGEPI, in 2015 the Customs Service received 114 applications for customs action from intellectual property right holders (26 percent less than in 2014) and significantly increased the number of objects identified as intellectual property for border protection and enforcement purpose. Out of 114 applications, 77 were lodged by foreign IPR holders.

In 2015, the Moldovan customs service registered 39 interdictions of goods suspected of being counterfeit, a 30 percent increase from 2014. In 33 of the 39 interdictions, the products were imports; in five cases, the products were intended for export. In all 39 cases in which customs detained or suspended products, the declarant was Moldovan (10 individuals and 29 legal entities). All 39 cases were infringements of trademark rights, 98 percent (38) were foreign-registered. In 24 cases, the rights enforcement procedure was triggered by applications for action; in three, the procedure was initiated *ex officio*; and in the other 12, the combined procedure was applied. The bulk of detained counterfeit products in 2015 were clothing and footwear, cosmetics, mobile phone accessories, and purses.

The Ministry of Internal Affairs is the main law enforcement body for preventing and combating intellectual property-related offences in the domestic market. In 2015, the Ministry registered and processed 14 notices of infringement of intellectual property rights, which is much below the level of the previous years. Among those, ten notices from domestic holders and four submitted on behalf of foreign holders; ten notices were related to the infringement of trademark rights and the other four related to copyright infringement.

Moldova is not listed in USTR's Special 301 report; nor is it listed in the notorious market report.

Moldova has cooperation agreements with 26 member states and is a party to 23 WIPO agreements, a list of which, including other international and regional agreements and IP conventions, is available at http://www.agepi.gov.md/en/legislation/international.php

Registration of intellectual property with AGEPI is not difficult; applications for registration can be submitted on-line. The time required to obtain Intellectual Property protection in Moldova varies depending upon the type of protection sought. For a copyright it takes 15-30 days, patent for plant 1.5-3 years, short-term patent for invention 7-8 months, patent for invention 17-18 months, geographical indications, appellations of origin, or traditional specialties guaranteed 10-12 months, industrial design 10-12 months, and trademark 10-12 months.

Resources for Rights Holders

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American Chamber of Commerce (AmCham) in Moldova http://www.amcham.md/

Post's list of local lawyers http://moldova.usembassy.gov/lawyers.html

7. Transparency of the Regulatory System

The Moldovan government usually publishes significant laws in draft form for public comment. Business and trade associations provide 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 government 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 2011, a group of ten large EU investors founded the European Business Association (EBA.) The three largest foreign business associations – AmCham, FIA and EBA – recently handed the new government a list of business constraints and recommendations to improve the investment climate.

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.

Bureaucratic procedures are not always transparent, and red tape often makes processing registrations, ownership, etc. unnecessarily long, costly, and burdensome. Discretionary decisions by government officials provide room for abuse and corruption. While the government has adopted a number of laws to improve the business environment and reduce excessive state controls and regulation, effective implementation of these laws is often lacking.

Since 2004, the government has been taking steps to reduce excessive government regulation of business activity. All regulations and governmental decisions related to business activity have been published in a special business registry "Register of Regulations on Business Activity" in order to raise the awareness of business people about their rights, increase the transparency of business regulations and help fight corruption. The Law on Basic Principles Regulating Entrepreneurial Activity was passed in August 2007. The government has 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. As part of a 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, government 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 government 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 arbitrary inspection, 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. In 2014, tax authorities introduced an online tax filing and payment system for businesses. In early 2016, the government announced a three-month moratorium on state inspections in a bid to improve legislation dealing with state checks to bring some order and predictability in conducting such checks.

8. Efficient Capital Markets and Portfolio Investment

Laws, governmental decisions, securities regulations, National Bank of Moldova (NBM) regulations, and Stock Exchange regulations provide the framework for capital markets and portfolio investment in Moldova. The government 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 government regulates credit policy via the NBM, auctions through commercial banks, mandatory reserves, credit secured through collateral, open market operations, and T-bill auctions on the primary market. Foreign investors may obtain credit on the local market. Local commercial banks provide mostly short-term, high-interest loans and require large amounts of collateral, reflecting the country's perceived high economic risk. Progress in lending activity suffered a sharp reversal in 2015 in the wake of the late-2014 banking crisis, which severely weakened the banking system. Extreme monetary tightening by the NBM in the wake of large currency emissions connected to bank bailouts led to prohibitively high interest rates. As a result, as of early 2016, yields on one-year government bonds were around 25 percent; commercial rates were comparable.

Several large banks were affected by ownership scandals and hostile takeovers that damaged their reputation. Three banks at the center of the scandal were liquidated in October 2015. Large investments can rarely be financed through a single bank and require a bank consortium. Recent years have seen 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 extremely 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. Official central bank statistics include data on portfolio investments, yet there is a lack of sufficient open-source information to fully reflect the trends and relevance of this form of investment in Moldova. Central bank data show that most portfolio investments target banks, while the National Statistics Bureau does not differentiate between foreign direct investment and portfolio investments of less than 10 percent in the equity of a company.

Furthermore, lack of ownership transparency and poor record on the rule of law represent significant challenges to a potential investor. Weaknesses in the share registry system have contributed to “raider attacks” over the past few years when securities were fraudulently transferred from their rightful owners to others.

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 government adopted a new strategy for the development of the non-banking financial sector 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 adopting 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 in recent years, the government has passed amendments to strengthen the integrity of shareholder rights.

Money and the Banking System, Hostile Takeovers

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 11 commercial banks. The NBM regulates the commercial bank sector and reports to Parliament. Foreign investors' share in Moldovan banks' capital is around 83 percent. Yet, questions remain about true bank owners who pass as foreign investors in official statistics. A crisis at three Moldovan banks, two of them being among the country's top five, in late 2014 called into question the soundness of the banking system. There is a lack of transparency on ultimate beneficial ownership, large exposures to some clients, significant related-party lending in banks' portfolios, and resulting high non-performing loans. This has contributed to a small number of individuals concentrating control over most of the banking assets. Both regulating bodies, NCFM and NBM, are seen as having weak enforcement powers, at times undercut by questionable court rulings. In response to this problem, Moldovan Parliament is currently looking into adopting legislation that would strengthen the independence of decision making at the two regulating bodies. In order to strengthen the weak system of tracking shares and shareholders, authorities are also drafting a law to set up a central share depository with the help of international financial institutions.

As of December 31, 2015, total bank assets were MDL 69.10 billion (USD 3.67 billion). Moldova's three largest commercial banks account for around 67 percent of the total bank assets, as follows: Moldova Agroindbank: MDL 18.19 billion (USD 966 million); Moldindconbank: MDL 15.61 billion (USD 830 million); and Victoriabank: MDL 12.28 billion (USD 653 million). In a bid to prevent another bank crisis, the NBM instituted the procedure of special monitoring of these top three banks over concerns about the transparency of bank shareholders.

Moldovan legislation does not have a definition of hostile takeovers. There were instances of what was termed "raider attacks" in the banking sector that saw the use of corrupt legal practices to defraud rightful owners of their shares.

9. Competition from State-Owned Enterprises

Moldovan legislation does not formally discriminate between state-owned enterprises and private-run businesses. By law, governmental authorities must 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 animal 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 government 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 has stated the intention of privatizing all 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, the country's largest tobacco company, and the state railway company. The government keeps a registry of state-owned assets.

OECD Guidelines on Corporate Governance of SOEs

State-owned enterprises (SOE) are governed by the law on stock companies and the law on state enterprises as well as a number of governmental decisions. SOEs have boards of directors usually made up of representatives of the line ministry, Ministry of Economy and Ministry of Finance. As a rule, SOEs report to the respective ministries, with those registered as joint stock companies being required to make their financial reports public. Moldova does not incorporate references to the OECD Guidelines on Corporate Governance for SOEs in its normative acts.

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 their private sector competitors, and use this perceived competitive advantage to prevent open competition in their individual sectors.

Sovereign Wealth Funds

Post is not aware of any sovereign wealth fund run by the government of Moldova.

10. Responsible Business Conduct

While Moldovan legislation deals with issues pertaining to environment, social fairness or governance, there is little awareness of the concept of responsible business conduct. The country's corporate culture and private sector are still at an early stage of development and still seeking to define the nature of interactions between private business and the authorities and the public at large. There is no governmental policy to encourage enterprises to follow OECD Guidelines for Multinational Enterprises.

Foreign companies operating in Moldova are gradually introducing the concept of corporate social responsibility as an aspect of responsible business conduct. However, the Soviet-era notion of a paternalistic government responsible for maintaining the social welfare for all citizens remains quite widespread. AmCham Moldova has set a leading example, with its corporate members engaging in a forestation project, in the rehabilitation of medical facilities, and in Christmas collection projects for orphanages.

11. Political Violence

The U.S. Embassy has received no reports over the past ten years of politically motivated damage to business projects or installations in Moldova. In 2015 and early 2016, the political scene witnessed a public outcry amid perceptions of a corrupt political class that failed to prevent, if not condoned or supported, a massive bank fraud resulting in the disappearance of nearly 15 percent of GDP from the country's then-three largest banks. Round-the-clock anti-government protests culminated in January 2016 in clashes with riot police when protesters tried to prevent parliament from voting in a new government. The clashes were limited and did not turn into full-blown violence or cause extensive damage that would affect businesses in any way.

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 (approximately 11.30 rubles per U.S. dollar), and a separate customs system. Despite the political separation, economic cooperation takes place in various sectors. The government 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 United States and EU as observers, continues 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. An important achievement of the talks in the past few years has been the resumption of rail freight traffic through Transnistria. However, progress on other issues was limited and relations at times highly antagonistic. As of early 2016, there is a new effort underway to reinvigorate the dialogue between the sides.

12. Corruption

While Moldova is taking steps to adopt European and international standards to combat corruption and organized crime, corruption remains a major problem. In 2008, the government developed and enacted a series of 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 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.

In 2015, the Ministry of Justice initiated the drafting process of two laws aimed at creating a substitute agency to the National Integrity Commission and improving the law on disclosure of public officials' assets and property. These laws were part of the integrity package laws that have been promoted by the government in the anticorruption area. After a tumultuous period of political instability and Cabinet of Ministers' dismissals, in early 2016 the draft laws were finally endorsed and sent to Parliament for review and passage. In February 2016, Parliament passed in the first reading the Law on the National Integrity Center and the Law on Disclosure of Assets and Conflict of Interest by public officials. According to the first draft law, the National Integrity Center is to replace the National Integrity Commission. The new agency will be staffed with 30 integrity inspectors and have the power to apply fines on delinquent officials.. The Director and deputy director would be hired in a competitive process. The second draft law provides for clearer procedures and mechanisms for disclosing assets, properties, and conflicts of interest by Moldovan public officials.

A 2012 law reorganized the Center for Combating Economic Crimes and Corruption (CCECC) into the National Anticorruption Center (NAC). The NAC focuses solely on investigating public corruption and bribery crimes, and is subordinated to the parliament (CCECC was under the executive branch). Moldovan judges, who had previously enjoyed full immunity from investigation, can now be prosecuted for crimes of corruption without a sanction from their highest self-governing body, the Superior Council of Magistrates, which nevertheless keeps its powers to approve any search or arrest warrant against a judge.

In 2015, the Supreme Court of Justice launched a series of legislative initiatives in the anticorruption area. The initiatives mainly focused on the creation of specialized anticorruption courts that would adjudicate corruption cases only. This proposal was vehemently criticized by Moldovan civil society and anti-corruption NGOs. The civil society's main argument was that the creation of anti-corruption courts raised the risk of corruption as there would be no body to oversee the activity of the courts' judges.

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 which put the legislation more in line with international, anti-bribery standards by criminalizing the act of promising, offering or giving a bribe to a public official.

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 anticorruption 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.

In summer of 2014, four Moldovan deputies representing the Communist faction filed a petition with the Moldovan Constitutional Court asking it to rule on the constitutionality of the Law on Integrity testing. As a safeguard, the Constitutional Court has officially requested an amicus curie from the Venice Commission – the Council of Europe institution responsible for reviewing constitutional matters of its member states. Among other comments, the Venice Commission has stated that the integrity testing law raises concerns in respect of a number of important rule of law and fair trial principles. These include the presumption of innocence; the right to an effective and efficient defense, including the right to full disclosure of and full access to the evidence; the examination of witnesses; the legal requirements for the use of undercover agents, including the consequential non-admittance of evidence gathered by agents provocateurs who are themselves committing an offence; the principles of foreseeability and of narrow interpretation of statutory offences; the principle of proportionality between offences and sanctions and finally, the right to an effective appeal to an independent court of law. In 2015, the Constitutional Court delivered its judgment. Its reasoning mirrored the findings and recommendations provided by the Venice Commission. In an attempt to address all the concerns, the NAC drafted a series of amendments to the Law on Integrity testing. In February 2016, the amendments were accepted by Parliament and passed in the first reading. Parliament also passed a law providing for a gradual increase of judges' salaries up to 2016.

Despite the established anti-corruption framework, the number of cases involving prosecution of corruption did not meet international expectations (given corruption perceptions), and enforcement of existing legislation is widely deemed insufficient. The dismissal, in April 2013, of the government on corruption allegations has worsened the Moldovan society's perception of corruption. After dropping to 103rd place in 2014, Moldova's ranking in the 2015 Transparency International Corruption Perception Index remained unchanged, while the country's score dropped to 33 out of 100 from 35 a year earlier. A Transparency International Global Corruption Barometer (GCB) survey done in 2013 shows that 71 percent of Moldovans think that corruption is a very serious problem and 60 percent think that the government's efforts to fight corruption are ineffective. At the same time, according to the GCB, 80 percent of Moldovan citizens believe that the most corrupt institution is the judiciary, followed by police (76 percent) and political parties (75 percent).

The U.S. Embassy has received many 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 pressured to close.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

In 2007, Moldova ratified the United Nations Convention against Corruption, subsequently adopting amendments to its domestic anti-corruption legislation.

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.

Resources to Report Corruption

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13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Moldova has signed bilateral investment protection and promotion agreements with 42 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, Luxembourg, Montenegro, 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 United States. 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.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

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 USD 1 million, a three-year exemption from tax on income resulting from exports; and for investments of more than USD 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 USD 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 government 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.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	6,476	2014	7,962	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2015	44.94	N/A	N/A	N/A
Host country's FDI in the United States ($M USD, stock positions)	N/A	N/A	N/A	N/A	N/A
Total inbound stock of FDI as % host GDP	2015	54.6%	N/A	N/A	N/A

*National Bureau of Statistics and National Bank of Moldova are the primary source of the information published in quarterly and yearly reports.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	3,067	100%	Total Outward	N/A	100%
Russia	792	26%			
Netherlands	353	12%			
Cyprus	267	9%			
France	238	8%			
Spain	223	7%			

"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets*								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	-	100%	All Countries	-	100%	All Countries	-	100%

*Note: According to the National Bank of Moldova, total net portfolio investment in 2015 was USD 3.49 million. The IMF rounds this to zero.

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, IFRCS, 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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