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Corruption and Economic Growth in Moldova: A Reexamination

Maksym Markevych and Marina Marinkov

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IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on November 28, 2023. This paper is also published separately as IMF Country Report No 23/429.

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Corruption and Economic Growth in Moldova: A Reexamination
Prepared by Maksym Markevych and Marina Marinkov

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ABSTRACT: This paper examines corruption in Moldova, analyzing its impact on economic growth and progress in implementing earlier IMF recommendations on anti-corruption and anti-money laundering (AML). Despite solid legal frameworks, corruption remains a significant challenge, impeding growth and EU convergence. Drawing from regional successes, the paper stresses the importance of specialized anti-corruption agencies, robust prosecution, civil society involvement, and international expertise. Moldova has made strides in strengthening its legal and institutional infrastructure, but challenges like delayed corruption case adjudication persist. Recommendations include enhancing the Anti-corruption Prosecution Office's investigative capacity and establishing specialized adjudication infrastructure.

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SELECTED ISSUES PAPERS

Corruption and Economic Growth in Moldova: A Reexamination

Republic of Moldova

Prepared by Maksym Markevych and Marina Marinkov

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Corruption and Economic Growth in Moldova: A Reexamination¹

This paper addresses the issue of prevalent corruption in Moldova, examining its impact on the country's economic growth and the progress in implementing the IMF's 2021 governance diagnostic's recommendations in the areas of anti-corruption and anti-money laundering (AML). Moldova, despite having sound legal and institutional frameworks, faces significant corruption challenges, hindering its growth and convergence towards EU living standards. The paper revisits the complex relationship between corruption and economic growth, and suggests that reducing corruption could accelerate Moldova's economic convergence with the EU. Drawing on regional best practices, the paper highlights successful anti-corruption reforms in nearby countries, emphasizing the role of specialized anti-corruption law enforcement authorities, robust prosecution and adjudication, and the involvement of civil society and experts with international experience. The analysis of Moldova's progress on anti-corruption and AML frameworks indicates positive steps taken, such as strengthening legal and institutional infrastructure. However, challenges persist, including delays in adjudicating corruption cases and the need for further strengthening of the AML measures. The paper concludes by recommending efforts to build the investigative capacity of the Anti-corruption Prosecution Office, and establish a specialized adjudication infrastructure to effectively combat corruption in Moldova.

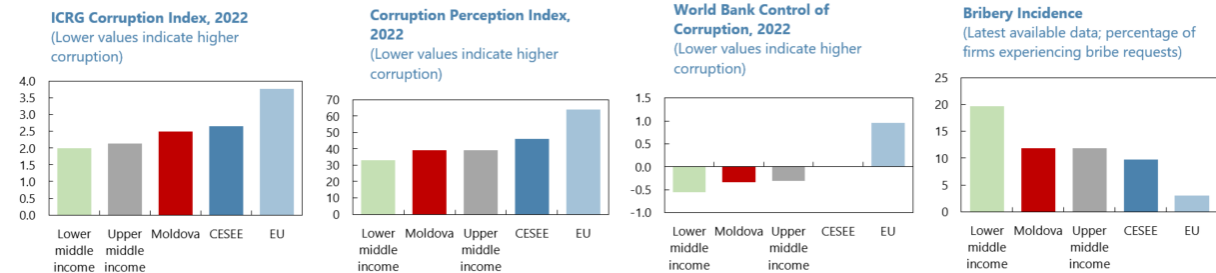
A. Introduction

1. Corruption in Moldova is widely perceived as entrenched and widespread. Analysis conducted for a Selected Issues Paper for the 2020 Article IV Consultations (IMF 2020) found that Moldova ranked unfavorably among peer countries across a range of perception indicators on both grand and petty corruption. In 2021, on the request of the Moldovan authorities, the IMF conducted a comprehensive Governance Diagnostic (GD, see IMF 2021), analyzing the nature and severity of corruption and governance vulnerabilities in six key state functions. The GD concluded that despite having sound legal and institutional frameworks largely in place, Moldova continued to suffer from significant corruption and governance vulnerabilities. More recent data suggest some improvement in indicators of corruption in Moldova, but they still remain higher relative to other Central, Eastern and Southeastern Europe (CESEE) countries and to the EU (Figure 1). This paper provides an update on the implementation of the GD recommendations on anti-corruption and Anti-Money Laundering (AML), assesses empirically the impact that the reduction in corruption could have on growth and convergence towards EU living standards and suggests a way forward based on the progress achieved.

¹ Prepared by Maksym Markevych (LEG) and Marina Marinkov (EUR), with research assistance from Yiran Zha. Helpful comments were received from Emmanuel Mathias and Mark Horton.

Figure 1. Moldova: Corruption Indicators

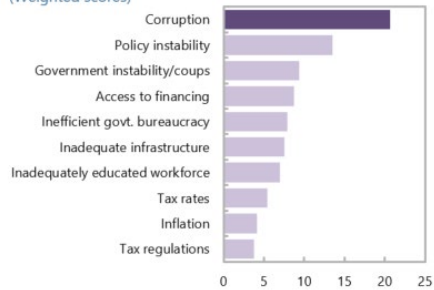
A variety of data sources show that corruption in Moldova is higher relative to upper middle-income countries, CESEE countries and the EU.



Sources: International Country Risk Guide (ICRG), Transparency International, Worldwide Governance Indicators, and Enterprise Surveys.

Corruption has been viewed as the main impediment to business development in Moldova...

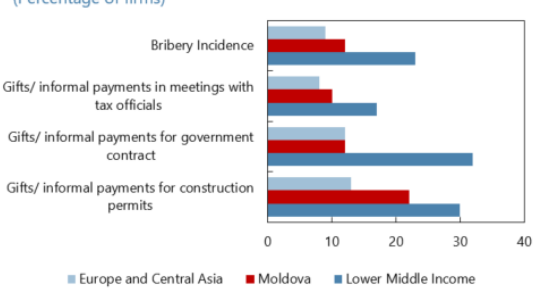
Moldova: Top Ten Problematic Factors for Business in 2018
(Weighted scores)



Source: Global Competitiveness Report, 2017-2018.

...and businesses reported higher incidence of bribery relative to Europe and Central Asia.

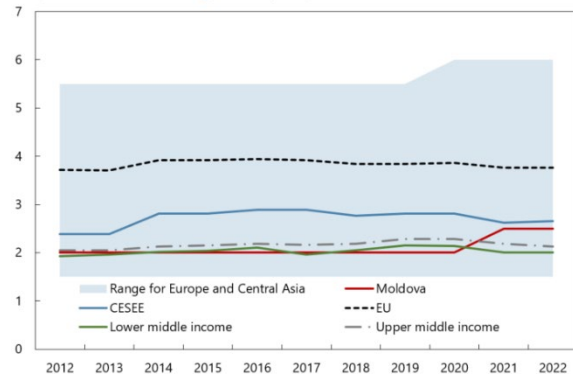
Firm-level Indicators of Corruption, 2019
(Percentage of firms)



Source: Enterprise Surveys, Moldova 2019 Country Profile

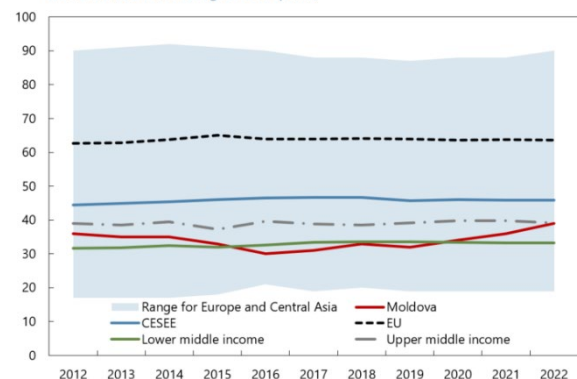
Recent years have seen some improvement in indicators of corruption, with Moldova moving closer to CESEE peers. Nevertheless, the gap with the EU remains large.

ICRG Corruption Index, 2012-22
(Lower values indicate higher corruption)



Source: International Country Risk Guide (ICRG)

Corruption Perception Index, 2012-22
(Lower values indicate higher corruption)



Source: Transparency International

Note: The indicators in this figure should be interpreted carefully, as they are derived from perceptions-based information. There is also some uncertainty around the point estimates.

2. High levels of corruption can severely undermine economic growth, by reducing the quality of governance, undermining competition, weakening property rights protection, and inhibiting private investment. In June 2022, Moldova achieved EU candidate status. Despite strong growth in recent decades, Moldova continues to be among the poorest countries in Europe. The combined impact of the pandemic and Russia's war in Ukraine has exacerbated the gap in living standards between Moldova and the EU (see Staff Report ¶1). While corruption and political instability are factors affecting the economic growth of many emerging markets, these are often cited as the most problematic for doing business in Moldova (IMF 2020, Figure 1). Reducing corruption can help accelerate economic convergence to the EU. Regional experiences provide useful examples of criminal justice reforms to combat corruption. Supported by the GD as well as a Fund-supported ECF/EFF program², the Moldovan authorities have initiated a broad-based set of reforms aimed at reducing corruption, strengthening the rule of law, and reinforcing its anti-money laundering regime. The fight against corruption and the strengthening of the rule of law are also part of nine steps identified by the European Commission as critical elements to allow Moldova to advance its path to EU accession. While progress is ongoing, these reform efforts face resistance from vested interests, who try to leverage their access to economic and political influence to evade prosecution and undermine the efficacy of the criminal justice system.

B. Corruption and Economic Growth

3. The theoretical relationship between corruption and economic growth is complex. There are two main theories on how corruption can impact growth.³ An earlier view that corruption may *grease the wheels* and help the economy grow by getting around inefficient rules was replaced⁴ by the *sand in the wheels* approach, which argues that corruption slows growth because it hinders efficient production and innovation. Challenges in establishing a direct cause-and-effect relationship between corruption and growth contribute to the overall complexity. The potential for reverse causality exists, where countries with higher incomes may have greater resources to tackle and mitigate corruption.

4. Countries with lower perceptions of corruption tend to have higher GDP per capita. Figure 2 is a snapshot of this relationship using data for 2022, and shows that Moldova has a relatively high perception of corruption given its level of GDP per capita. An extensive literature exists on corruption and growth, using a variety of corruption indicators and estimation techniques and controlling for endogeneity.⁵ Empirical evidence suggests that, overall, corruption tends to negatively affect growth, particularly in countries that have low investment rates and poor governance. However, it is important to note that the relationship between corruption and economic growth is complex and can be influenced by various factors. Additionally, there may

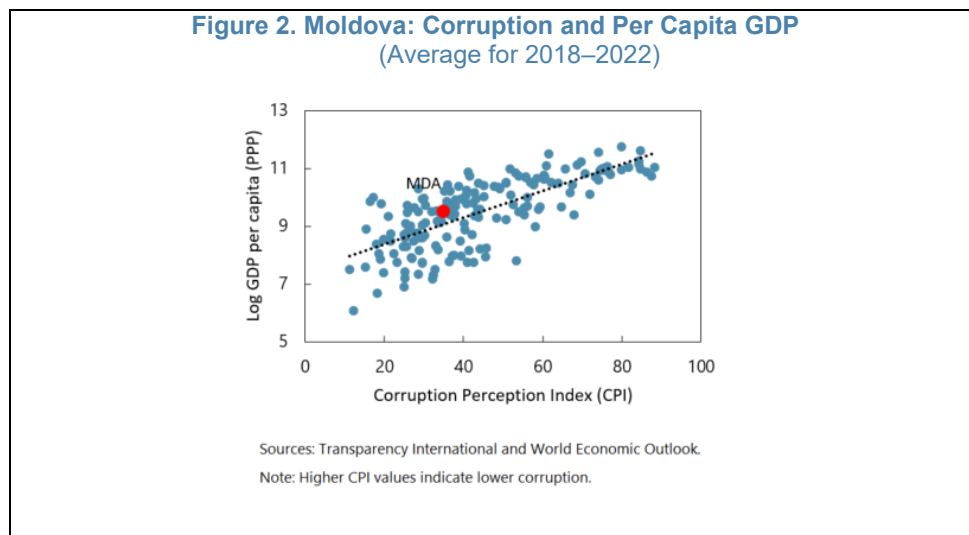
² See [IMF Country Report No. 22/1](#).

³ See Uberti (2022) for a detailed review of these theories.

⁴ Tanzi (2000) notes that “the romantic view of corruption has been replaced, in more recent years, by a more realistic and much less favorable view”.

⁵ IMF (2017), Gründler and Potrafke (2019), and most recently Uberti (2022), provide exhaustive overviews of the empirical studies.

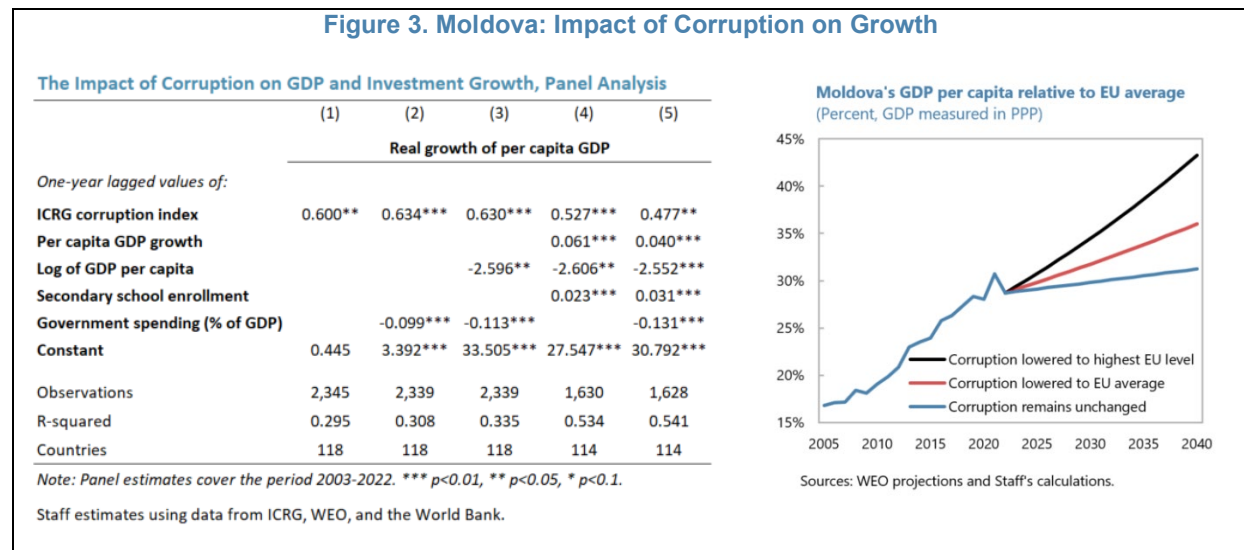
be variations in the impact of corruption depending on the specific context and the nature of the corrupt practices involved.



5. Reducing corruption in Moldova could speed convergence towards EU living standards. To determine the causal effects of corruption on economic growth, we use regressions that control for growth determinants and examine the impact that corruption perceptions have on future GDP growth. To this end, we build on the IMF 2017 methodology and update it, focusing on panel data estimates covering the last 20 years.⁶ Regression estimates confirm that corruption tends to have a negative effect on growth and suggest that a reduction of perceptions of corruption, represented by an increase of the Corruption Index from the International Country Risk Guide (ICRG) by one unit may raise per capita GDP growth by about 0.6 percent. Based on these findings, Figure 3 shows the projected path of Moldova's GDP per capita in proportion to the EU GDP per capita under alternative corruption levels. If Moldova is unable to lower corruption, per capita GDP will remain at about 30 percent of the EU average in 2040. If corruption is lowered to the average of EU countries (equivalent to an increase of the ICRG index by 1.3 points), per capita GDP will reach 35 percent of the EU average. However, if Moldova reduces corruption to the level of the best performing, highest ICRG level in the EU (equivalent to an increase of the ICRG index by 3 points), per capita GDP will reach 45 percent of the EU average by 2040, with accelerated convergence thereafter.

⁶ Cross sectional estimates assume that the relative prevalence of perceptions of corruption in countries is stable over time, which could be a strong assumption for longer periods of time. We use panel data estimates with country fixed effects to account for over-time variation in the relationship between corruption and growth (Figure 3). Variables used in the analysis include, following IMF 2017: (i) real GDP growth per capita is the dependent variable; (ii) ICRG is used as a measure of corruption perceptions because it has the longest time series (lower ICRG values indicate higher corruption); (iii) conventional growth determinants include lagged dependent variable (to capture autocorrelation), lagged level of GDP per capita to control for mean reversion in growth, and lagged value of secondary school enrollment. Various specifications are used for robustness purposes.

Figure 3. Moldova: Impact of Corruption on Growth



C. Regional Best Practices in Criminal Justice Reforms

6. The experience of countries in the region provides useful examples of good practices in combatting corruption. CESEE countries that share similar background to Moldova in terms of economic development, institutional and legal frameworks, historical legacies, or political culture appear to be the most relevant. There also appears to be a strong association between the ability to control corruption and the rates of economic growth in the region. For example, the indicator of control of corruption in Poland has been relatively high over the past thirty years and economic growth has been strong. Over this period, control of corruption perceptions in Romania have strengthened and growth followed the trajectory similar to Poland's. Conversely, Ukraine have combined a low level of perceived control of corruption and of economic growth during the last thirty years. However, following the launch of anti-corruption reforms in recent years, the control of corruption indicators have improved in these two countries—if maintained, these recent improvements in the control of corruption could contribute to improved economic performance.

7. Specialized anticorruption law enforcement authorities, with operational independence and strong mandates, have been at the core of anti-corruption reforms in nearby countries. Romania, Poland, and Ukraine have each established specialized anti-corruption law enforcement agencies: Romania's National Anti-corruption directorate (DNA) in 2002, Poland's Central Anti-Corruption Bureau (CBA) in 2006 and Ukraine's National Anti-Corruption Bureau (NABU) in 2015. All three institutions were granted broad operational independence, including autonomy over staffing and the budget, clear mandates to investigate high-level corruption and broad investigative powers and capacity (e.g., special investigative techniques such as surveillance and wiretapping). These mandates and tools are aimed at reducing the influence of political and vested interests over corruption investigations and prosecutions.

8. Success of and support for anti-corruption reforms depend on the results in convictions and asset recovery, requiring robust prosecution and adjudication of corruption cases. As noted in a Selected Issues Paper for the 2017 Article IV Consultation (IMF 2017), the leadership of the anti-corruption law enforcement authorities and public support were key to strengthening and securing these institutions as investigation, judicial review, and convictions of high-level officials take time to materialize. It has been important that the leadership of these anti-corruption institutions is perceived as rule-of-law oriented, prosecuting crimes without taking into consideration the person and the political affiliation. IMF 2017 outlined how the judicial response had been a key feature of the relative success of the anticorruption agencies, particularly in Romania and Latvia⁷. IMF 2017 also noted that Romania's ranking is lower than Poland's with respect to the World Bank's indicator of rule of law and that adjudication of the cases of high-level corruption receives a special treatment in Romania.⁸ Moldova ranks much lower than Romania and Poland. Ukraine's weaknesses in the rule of law, with a ranking similar to that of Moldova, was an important contributor to the decision to establish a specialized anti-corruption court, considering the low trust in the courts of general jurisdiction.

9. Involvement of civil society and experts with international experience has contributed to the credibility and sustainability of anti-corruption reforms. Civil society has been actively engaged in the design of new anti-corruption agencies in the region, which has promoted credibility and support for the institutions. The experience of anti-corruption experts from the academia, think-tanks and other NGOs has also been leveraged. Involvement of experts with international experience was instrumental at the early stages of the reforms considering the limited domestic track record of successful prosecution of top-level corruption. For example, anti-corruption reforms in Romania leveraged EU conditions, while in Ukraine, experts with international experience were a key part of the selection process for top prosecutors, judges, and investigators. Efforts of investigative journalists and media have also been useful to support the work of anticorruption agencies in the region, for example to identify officials not declaring assets or exhibiting other indications of illicit enrichment.

⁷ IMF 2017 described that in 2015 alone, the DNA indicted one sitting prime minister, five ministers, 21 members of parliament and ordered the seizure of almost half a billion dollars. The confirmation rate of DNA indictments through final court decisions has reached 90 percent, and around US\$200 million have been recovered by the Romanian State in 2015. Good results have also been achieved in Latvia, where cases have been started, for example, against prosecutors, judges, high-level officials of the Customs and State Revenues Service, heads of SOEs and mayors of large cities. In Latvia, the confirmation rate on KNAB's indictment through final court decisions reached more than 80 percent.

⁸ The High Court of Cassation and Justice (ICCJ) is exclusively competent for legal proceedings against high-level officials, including senators, deputies and Romanian members of the European Parliament, government members, and senior judges and prosecutors, for acts committed in the exercise of their office, including acts of corruption. First-instance judgements are handed down by a chamber of three ICCJ judges. In the case of an appeal against this verdict by the defendant or the prosecutor, the final-instance judgement is then passed by a five-member chamber.

D. Taking Stock of Moldova's Progress on Anti-Corruption and AML

10. This section analyzes progress in the implementation of GD recommendations in the areas of anti-corruption and AML frameworks. The GD concluded that corruption and governance vulnerabilities are pronounced in the areas of rule of law, anti-corruption, AML, and governance of state-owned enterprises (SOEs), while other areas assessed (public financial management, tax administration, central bank governance and financial sector oversight) presented some progress in mitigating such vulnerabilities. This section focuses on two control functions—anti-corruption and AML (Table 1)—that are critical to support the effective implementation of broader governance reform, including in the other state functions analyzed in the GD. Effective enforcement and associated dissuasive effects create incentives for compliance with good governance frameworks. Two measures from the GD anti-corruption recommendations were incorporated into the Fund-supported program as conditionality, the majority of the GD priority recommendations in the two areas analyzed were implemented, and good progress and steps to implement structural, long-term recommendations were observed on the rest. Moreover, a number of additional, non-priority GD recommendations were also implemented, highlighting the usefulness of the GD recommendations in informing the authorities' reform efforts.

Progress in the Anti-Corruption Framework

11. The GD concluded that the anti-corruption legal and institutional infrastructure is largely in place but lacked effectiveness and needed to be insulated from undue influence. Sanctioning in corruption cases appeared lenient, with recourse to fines and reduced and suspended sentencing. Criminal enforcement efforts were focused on petty corruption and not targeted at high-level corruption. In addition, the pervasiveness of corruption and governance vulnerabilities in the anti-corruption institutional framework, including the judiciary, resulted in widespread vulnerabilities across other public agencies. The GD noted that corruption in law enforcement and the judiciary in Moldova is particularly concerning, as it allows for non-prosecution of criminals, facilitating commission of other economic crimes. The GD identified five priority recommendations to strengthen the anti-corruption framework, ranging from short-term measures to strengthen anti-corruption law enforcement and promote integrity in the prosecution service, to longer-term adjustment in the focus of anti-corruption investigative efforts to improve effectiveness of anti-corruption enforcement.

12. One of the first implemented anti-corruption recommendations was to strengthen the selection process for the head of Anti-corruption Prosecution Office (APO). APO's mandate includes investigation and prosecution of high-level corruption, and the GD concluded that the selection process for the APO head should include additional safeguards to reflect the importance and the need for independence of this office. The GD recommended to strengthen the selection process for the head of APO with participation of experts with international experience and civil society and by allowing non-prosecutors to apply; the strengthening of the selection process for the head of APO became part of the conditionality under the ECF/EFF program of reforms (March 2020 Structural Benchmark). The authorities amended the legal framework to include a

selection commission comprised of members with impeccable reputation and high professional and moral qualities in vetting candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law. The authorities promptly established such a commission, including members with international experience in anti-corruption prosecution and representatives of civil society, and initiated the selection process, appointing a prosecutor with the necessary professional skills and irreproachable reputation as the head of APO. This was also part of the Fund-supported program (December 2022 Structural Benchmark).

Table 1. Moldova: Governance Diagnostic Priority Recommendations			
MEASURE	AUTHORITY	OBJECTIVE	IMPLEMENTATION STATUS
Anti-Corruption Framework			
Strengthen the selection process for APO head with participation of international experts, civil society, allowing non-prosecutors to apply.	MOJ, APO	Strengthen the independence of APO.	Implemented
Transfer the disciplinary function from the PGO to the SCP.	PGO, SCP	Promote integrity in prosecution service.	Implemented
Intensify investigations of embezzlement by public officials, illicit enrichment and declaring false information.	APO, NAC	Improve effectiveness of anti-corruption enforcement.	Continuous relevance
Conduct and publish a study of court practice and factors leading to lenient sanctions in corruption cases.	Judiciary, APO, NAC, PGO, MOJ	Improve dissuasiveness of sanctions in corruption cases.	Continuous relevance
Prioritize investigation of high-level corruption.	APO	Improve effectiveness of anti-corruption enforcement.	In progress
Anti-Money Laundering			
Conduct cross-sectoral thematic inspections of banks based on the external audit.	NBM	Improve application of preventive measures among reporting entities.	Implemented
Provide the PSA with sanctioning powers for non-compliance with registration requirements regarding the BO info.	MOJ	Improve quality of BO information in company registry.	Not implemented
Conduct a thematic inspection re banks' systems for reporting of suspicious transactions, with a particular focus on transactions relating to PEPs.	NBM, SPCML	Improve application of preventive measures by reporting entities.	Implemented
Intensify efforts to investigate and prosecute corruption-related ML in line with risk profile.	NAC, APO	Increase effectiveness of anti-corruption criminal justice.	Continuous relevance

13. The authorities also implemented the recommendation on strengthening the independence of the disciplinary function of prosecution. At the time of the GD, the Inspection of Prosecutors, a body in charge of disciplinary proceedings against prosecutors, was insufficiently independent and subordinated to the Prosecutor General. Disciplinary cases were launched only after Prosecutor General approval, who also appointed and dismissed inspectors and chief inspectors, establishing the structure, budget and composition of the Inspection. The authorities revised the legal framework in June 2023 to transfer the Inspection of Prosecutors to the Supreme Council of Prosecutors, a self-governing body of prosecutors. The mandate and

the structure of the Inspection of Prosecutors are determined by the Supreme Council of Prosecutors, which is also organizing the selection process for the inspectors who cannot be selected from among the prosecutors in office.

14. The authorities have taken steps to enhance the dissuasiveness of sanctioning in corruption cases. The GD identified that sanctioning in corruption cases appeared lenient, with wide application of fines and reduced and suspended sentencing. Almost half of all convictions in corruption cases resulted only in a fine; a minor share of convictions resulted in imprisonment, and in these few cases, the sentences were mostly suspended. This contributed to perceptions of impunity of corrupt officials. The GD recommended to conduct and publish a study of court practice in corruption cases to identify legal provisions, operational practices, and other factors that have led to lenient sanctions. As part of the Fund-supported program, the authorities took steps to limit abuse in the existing criminal justice framework by enhancing simplified proceedings provisions by adding clear criteria and procedures and prohibiting the reduction of terms of imprisonment in corruption cases below statutory minima (prior action, third ECF/EFF review).

15. In line with a long-term GD recommendation, the authorities have prioritized investigations of high-level corruption. The GD concluded that corruption investigations at that time were focused on petty bribery and that criminal enforcement efforts needed to be better targeted at high-level corruption. As anti-corruption reforms became a priority for the authorities, notable progress has been achieved in investigation of high-level corruption. Since January 2023, the National Anti-Corruption Centre (NAC) and APO have submitted to court over 140 corruption cases involving one former President, one former Prime Minister, one former minister, four former and current members of Parliament, three prosecutors, one judge, one former governor of the NBM and other high-level officials. APO obtained 130 sentences in the first instance court, including confiscation orders for over MDL 1.7 million. Recently, APO prosecutors obtained an appellate adjudication in a high-profile bank-fraud case, sentencing in absentia a former high-level official to 15 years imprisonment and ordering over MDL 5.2 billion confiscation.

16. The GD recommendation to intensify investigations of embezzlement by public officials, illicit enrichment, and declaring false information has continuous relevance. At the time of the GD, some types of corruption crimes, such as embezzlement and illicit enrichment, were not adequately prosecuted. The GD report noted that considering the difficulties in detecting and prosecuting corruption in Moldova and recovering proceeds, illicit enrichment can be an important anti-corruption tool, where significant enrichment of a corrupt official provides a visible manifestation of corruption and a basis to start an investigation. However, law enforcement agencies emphasized during the GD the difficulties in establishing a case of illicit enrichment due to the need to prove that assets could not have been legally obtained; this was interpreted as a requirement of a direct proof of illegality, for instance, a link to a specific offence. A recent interpretation of the burden of proof

in the illicit enrichment investigations by the Constitutional Court⁹, which confirmed that the evidence of a crime that generated the illicit wealth is not required, could be instrumental in intensifying prosecution of illicit enrichment, a crime relevant due to the perceptions of large unexplained wealth of some officials.

17. Despite the ongoing justice sector reforms, many corruption cases remain unresolved for extended periods of time, while cases against judges are mostly adjudicated in favor of the accused.

The President has cited the stalling of adjudication of high-profile corruption cases and unwillingness of judges to act against unwritten rules that protect their interests as key reasons for establishing an anti-corruption court.¹⁰ In 2020, the courts in Moldova took, on average, 324 days to reach a final decision on a case, 39 percent faster than the Council of Europe median (529 days). However, reaching a final decision in corruption cases took, on average, 3.5 years, four times slower than the national average for all criminal cases and 2.4 times slower than the Council of Europe median.¹¹ Moreover, the completion rate for corruption cases in 2022 (30 percent of cases examined were adjudicated) was materially lower than the completion rate for all criminal cases (50 percent).¹² Unfortunately, measures taken earlier to accelerate adjudication of complex corruption cases, such as establishment of specialized panels, did not increase the trust in judiciary¹³ and have not raised the efficiency and timeliness of adjudication.

Anti-Money Laundering

18. During the GD, Moldova's AML regime was not sufficiently used to support anti-corruption efforts or to shield the country's economy from illicit flows. The GD report noted that banks in Moldova exhibited recurring deficiencies in their application of preventive measures, particularly those aimed at identifying beneficial owners and politically exposed persons (PEPs). For identification of PEPs, Moldovan banks appeared to rely largely, if not exclusively, on self-reported information from customers, without cross-checking or verifying the information provided. The GD also stressed that the AML toolkit could also be better leveraged to support anti-corruption criminal enforcement and asset recovery efforts, while strengthened AML controls would provide fewer opportunities for the use and concealment of corruption-related illicit gains. Given these deficiencies, the GD recommended to conduct cross-sectoral thematic inspections of banks based on external audits.

⁹ In November 2022, the Constitutional Court adopted a decision in which it found *"that when applying the provisions of Article 330-2 of the Criminal Code, the prosecution's task is to prove that the value of the assets owned by the accused person substantially exceeds the legally acquired means and that they could not have been obtained legally, but not to prove that his income would result from the commission of other crimes. An interpretation according to which the charge of illicit enrichment would be conditioned on the evidence of another income-generating crime would defeat the purpose for which this crime was regulated, i.e., that of preventing corruption."*

¹⁰ Presidential Administration of Moldova, June 2023, Information Note to the Draft Law on Anti-corruption Court.

¹¹ Legal Resources Center of Moldova, 2022 "Judgment and sanctioning of corruption - analysis of judicial practice".

¹² *Idib.*

¹³ Presidential Administration of Moldova, June 2023, Information Note to the Draft Law on Anti-corruption Court.

19. In line with the GD recommendation, the NBM, as an AML/CFT supervisor, has introduced thematic inspections to its system of supervision. The NBM has conducted thematic inspections focused on the identification of beneficial owners and application of customer due diligence measures for PEPs, which were also triggered by the external audit findings. In addition, during on-site inspections, the NBM reviewed the implementation of action plans developed based on the results of the external audit control.

20. To address the abuse of companies for laundering the proceeds of corruption, the GD recommended to improve the quality of beneficial ownership information in the company registry. Although a public register of beneficial owners exists in Moldova, the Public Services Agency (PSA), responsible for maintaining the register, lacks the power to sanction entities for submission of false, incorrect information or failing to report changes. The GD concluded that due to the absence of enforcement powers, the quality of information contained in the register was questionable and recommended to grant the PSA sanctioning powers for non-compliance with the registration requirements regarding beneficial ownership, powers that are currently with the Ministry of Internal Affairs.

21. The authorities have taken measures to improve the identification of suspicious transactions and the quality of their reporting, with a focus on PEP activities. The NBM is assessing the effectiveness of the suspicious transaction reporting systems of the banks during its on-site inspections and off-site monitoring. The NBM has identified failures to identify and report suspicious transactions in banks, resulting in application of sanctions on banks, including written warnings and fines. In addition, the Office for Prevention and Combating of Money Laundering approved new Guidelines on the identification and monitoring of PEP activity and risk indicators for PEPs. The approved Guidelines also include a list of types of officials that hold prominent public positions for the purpose of identification of PEP.

E. Conclusion and Next Steps

22. An analysis of progress since the GD was conducted in 2021 shows strengthening of the anti-corruption and anti-money laundering framework, but further progress is needed in both areas. The authorities have implemented a wide range of recommendations provided by the GD. The perseverance of reform efforts in this area is critical and has the potential to contribute to boosting growth, fostering competition and investment, and accelerating income convergence towards the EU.

23. Further strengthening of the AML regime is required to mitigate substantial money laundering risks from corruption-related illicit financial flows. The capacity of law enforcement to use financial intelligence and to conduct financial investigations should be strengthened to identify and trace the proceeds of corruption more effectively. The authorities should intensify efforts to prosecute corruption-related money laundering in line with the substantial risks Moldova is facing. The NBM should develop the toolkit for the risk-based supervision of the financial sector and leverage risk-based targeted and thematic on-site inspections targeting the aspects that pose elevated risks within individual financial institutions and focusing on their

vulnerabilities to laundering the proceeds of corruption. The NBM should impose effective, proportionate, and dissuasive sanctions for non-compliance with AML/CFT obligations, which might be hindered by the NBM's cumbersome internal processes for sanction approval. The authorities should grant the PSA sanctioning powers for non-compliance with the beneficial ownership requirements or establish an effective mechanism of cooperation in this area between the PSA and the Ministry of Internal Affairs.

24. Building up APO's investigative capacity is a key priority for anti-corruption reforms in Moldova. Following the strengthening of APO's mandate to cover all high-level officials and corruption-related offences (as described in the SR, para. 30), the authorities should promptly take measures to strengthen its investigative capacity. Specifically, APO should be granted the required equipment, premises, and staffing (prosecutors, investigative officers, counsels, and experts) to ensure that it has sufficient capacity to deliver on the mandate to investigate high-level corruption. In this vein, the authorities adopted a law in October 2023 to grant APO the powers to apply wiretapping, which should be accompanied with prompt allocation to APO of required equipment and staff. A timely increase in staffing would require strengthening APO's authority over its human resources, as was recommended by the GD; currently, the control over staffing is exercised by the Superior Council of Prosecutors and the Prosecutor General. Specifically, APO should have a leading role in identifying prosecutorial candidates and forming panels for selection interviews, and a decisive say in the selection and transfer of prosecutors to APO. In addition, APO is relying on investigative officers seconded from other law enforcement agencies to conduct own investigations, which is a less stable arrangement. The authorities need to continuously meet APO's investigative capacity needs to promote effectiveness and continuity of investigations. Finally, APO needs to be also safeguarded from the pressures of vested interests, including pressures to curb its investigative capacity, by preventing transfer of prosecutors or investigative officers to APO or avoiding the introduction of limits to its mandate over the high-level corruption cases.

25. To complete the anti-corruption institutional system, Moldova should establish a specialized adjudication infrastructure. The President of Moldova has initiated the establishment of an anti-corruption court to ensure timely and specialized adjudication of corruption cases, submitting a draft law to Parliament in July 2023. The establishment of an anti-corruption court was indicated as a key justice reform priority, due to delays on high-profile corruption cases and limited successes in addressing corruption in the justice sector by the current judiciary. The authorities are currently adjusting the draft law taking into account a Venice Commission opinion with adoption of the law expected in early 2024. Several key aspects of the anti-corruption court design need to be ensured. The selection process for the anti-corruption judges should be reinforced—for example, involving experts with international experience, building on the lessons learned from the pre-vetting process for the members of the Superior Council of Magistrates. Objective and uniform selection criteria specific to anti-corruption judges should be established to promote transparency of the process. To avoid overburdening the new court, its jurisdiction should cover only cases investigated and/or prosecuted by APO, ensuring sufficient judicial staffing. Comprehensive safeguards will need to be introduced to protect the staffing, budgetary and operational autonomy of the anti-corruption court.

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