REPORT ON THE NATIONAL MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENT



Office for Prevention and Fight against Money Laundering

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List of acronyms

SLA - Savings and Loan Association

CARA - Criminal Assets Recovery Agency

NBM - National Bank of Moldova

POB - Public Opinion Barometer

NAC - National Anticorruption Center

NCFM - National Commission for Financial Markets

MONEYVAL Committee - Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

FEO - Foreign Exchange Office

FATF - Financial Action Task Force

GRECO - Group of States against Corruption

MTF - Multilateral Trading Facility

NBFC- Nonbank Financial Company

GDP - Gross Domestic product

ICMS - Integrated Case Management System

OPFML - Office for Prevention and Fight against Money Laundering

STISC - Information Technology and Cyber Security Service

1. Introduction

1.1. Objectives of the national risk assessment

The fight against money laundering and terrorist financing is an ongoing challenge for national and international institutions and authorities. The constant evolution of money laundering and terrorist financing techniques, based on exploiting the vulnerabilities of national systems, requires continuous updating to enable responsible authorities and subjects to identify changes in modes of operation, new typologies, ways of using technological advances, or other developments in this area.

The national risk assessment process aims to reveal existing threats and vulnerabilities of the national system for preventing and combating money laundering and terrorist financing.

The results of the assessment process contribute to the efficient management and allocation of resources by responsible authorities and reporting entities, and to determining the level of control measures applied to a particular product or sector.

It should be noted that the Republic of Moldova conducted its first assessment in this area in 2017[1], for 2015-2017, and, subsequently, the Action Plan for Mitigating the Risks Associated with Money Laundering and Terrorist Financing for 2017-2019 has been approved by Government Decision No 791/2017[2]. Thus, by approving this Action Plan, the following objectives were set:

1) improve the regulatory documents in force;
2) identify and reduce sectoral risks in the field;
3) undertake measures to identify the beneficial owner;
4) improve the supervision;
5) reduce cash transactions;
6) strengthen inter-institutional cooperation;
7) strengthen international cooperation;
8) provide technical assistance to law enforcement bodies, prosecutors and judges in the field of parallel financial investigations and recovery of illicit proceeds.

The overall aim and purpose of these objectives was to strengthen the domestic system for preventing and combating money laundering and terrorist financing.

At the same time, the Republic of Moldova, as a member of the MONEYVAL Committee, was subjected to the 5th round of assessment regarding the degree of the 40 FATF Recommendations implementation, with the adoption on 17.07.2019 of the Evaluation Report at the Plenary Session of the MONEYVAL Committee.

[1] http://spcsb.gov.md/storage/NRA/NRA_RO.pdf
[2] https://www.legis.md/cautare/getResults?doc_id=110315&lang=ro

In order to implement the recommendations made following the 5th round of assessment carried out by the MONEYVAL Committee of the Council of Europe, as well as to remedy the shortcomings identified in this area, in particular in the part concerning the updating of the national risk assessment, it was necessary to develop the National Strategy for Preventing and Combating Money Laundering and Terrorist Financing for 2020-2025 and the Action Plan for its implementation, approved by Parliament Decision No 239/2020[3].

Therefore, the need for a national risk assessment in the area of money laundering and terrorist financing is a priority of the Action Plan of the National Strategy for Preventing and Combating Money Laundering and Terrorist Financing and derives from FATF Recommendation 1. Thus, the basic objective of the national risk assessment process is the identification, analysis and perception of money laundering and terrorist financing risks faced by the Republic of Moldova.

Taking into account that money laundering and offenses generating illicit proceeds represent a major risk for the Republic of Moldova, the most relevant offenses generating illicit proceeds at national level are to be determined in the national risk assessment.

Also, the number and type of terrorist organizations worldwide is constantly growing and the basic needs of terrorists to use and transfer funds have remained unchanged. Despite the low level of risks for the Republic of Moldova, the national assessment of terrorist financing risks remains a priority, which has been reflected in the National Strategy in this area.

Estimating and assessing the situation by sector facilitates the analysis of money laundering vulnerabilities, which makes it possible to identify this phenomenon in different sectors. In this way, it is possible to locate the proceeds from crime and legalize them, as well as establish the attractiveness of the sector where they take place.

1.2. Methodology and national coordination

The World Bank Methodology was used to carry out this assessment, which constitutes well-defined structural and technical modules to collect and consolidate Excel data and information. To strengthen national authorities' efforts, by Government Decision No 6/2020 on the establishment of the Working Group for the implementation of the MONEYVAL Committee Recommendations, the elaboration of the National Strategy for Preventing and Combating Money Laundering and Terrorist Financing for the years 2020-2024, the national risk assessment in the field, as well as for the fulfillment of the commitments made to external development partners, the Working Group consisting of representatives of national authorities and institutions was established. They will participate in the

[3] https://www.legis.md/cautare/getResults?doc_id=125264&lang=ro

national risk assessment process in the field of preventing and combating money laundering and terrorist financing, as well as in working meetings to evaluate and implement the MONEYVAL Committee Recommendations, draft the Strategy, initiate and carry out the national risk assessment process in this area, and fulfil the commitments made to external development partners and submit proposals for reducing the risks identified.

Specialized working groups, consisting of representatives of the following national institutions, were therefore set up to implement the measures imposed:

- Ministry of Foreign Affairs and European Integration;
- National Anticorruption Center;
- General Prosecutor's Office;
- NBM;
- NCFM;
- Ministry of Internal Affairs;
- Security and Intelligence Service;
- Customs Service;
- Ministry of Finance;
- Public Services Agency;
- State Tax Service;
- Ministry of Justice;
- National Regulatory Agency for Electronic Communications and Information Technology;
- National Bureau of Statistics;
- State Chamber for Marking Surveillance;
- Notary Chamber;
- Moldovan Bar Association;
- Public Audit Oversight Board.

The OPFML has been appointed as coordinator of the national risk assessment process. Thus, the working group that has been set up had the task of collecting data and statistical information, processing, analyzing and consolidating the data and information received, as well as ensuring collaboration with the institutions involved, 7 national working groups having been formed:

- Group 1: ‘National Threats’;
- Group 2: ‘National Vulnerabilities’;
- Group 3: ‘Vulnerability of the banking sector and financial inclusion’;
- Group 4: ‘Vulnerability of the securities sector’;
- Group 5: ‘Vulnerability of the insurance sector’;
- Group 6: ‘Vulnerability of the sector of other financial institutions’;
- Group 7: ‘Vulnerability of the sector of other professional participants’;

2. Geographical, economic, political and legal framework

The Republic of Moldova is a state in south-eastern Europe, bordering Romania to the west and Ukraine to the north, east and south, with no direct access to the sea, but with an exit to the Danube on a strip of 430 m at the most southern tip, through which it has potential access to the Black Sea. In 1991, in the process of the dissolution of the Soviet Union, the Republic of Moldova declared its independence, but since 1991 the territory of Moldova, located on the eastern bank of the Dniester River, is de facto under the control of the Transnistrian separatist regime. Legislation to prevent and combat money laundering does not apply on the territory of the left bank of the Dniester River, which makes financial institutions in the region vulnerable to the legalization of illicit funds. The National Bank of Moldova has taken swift action to inform countries, supervisors and institutions specialized in preventing and combating money laundering about the risks of institutions in the region and has requested the interruption of business relations with them. Nonetheless, due to the political situation, Transnistrian banks have correspondent accounts, opened in banks in the Russian Federation, through which they carry out international transactions.

The territory of the Republic of Moldova is administratively organized into administrative-territorial units: districts, cities and villages. Thus, the territory of the Republic of Moldova is divided into 32 districts, 13 municipalities and 2 regions with special status. According to the 2014 census, the Republic of Moldova has a population of about 2.9 million people, mainly Moldovans, but also groups of national minorities such as Ukrainians, Russians, Gagauz, Bulgarians, etc.

After the collapse of the Soviet Union, the Republic of Moldova experienced a sharp economic decline. The agricultural sector has the largest share in the economy. In 2020, the Republic of Moldova is still considered to be the poorest country in Europe.

The Republic of Moldova is a lower-middle-income economy, which despite being one of the poorest countries in Europe, has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. Over the past 20 years, the economy has grown by an average of 4.6% per year, driven by consumption and fuelled by remittances, which are estimated at around 10% of GDP.

The biggest economic challenges facing the Republic of Moldova are: a vulnerable political system, a polarized society, low productivity, demographic problems, a skills mismatch in the labor market and a high vulnerability to climate and external shocks.

Large-scale emigration from the Republic of Moldova combined with a declining reproductive rate has caused a decline in population and increased the elderly ratio in Moldova's population. This puts pressure on the pension system and limits the country's available labor force and long-term competitiveness.

The Republic of Moldova is a parliamentary country. The Parliament is unicameral and consists of 101 MPs elected by popular vote every 4 years. The President of the State is elected by direct vote of the people. The judiciary is represented by the Supreme Court of Justice, the Court of Appeal, the courts of first instance and the independent body that ensures judicial self-administration - the Superior Council of Magistracy. The judicial branch is independent, separate from the legislative and executive branches, and has its own powers, exercised through the courts, in accordance with the principles and provisions of the Constitution and other laws.

The Constitutional Court is an authority of constitutional jurisdiction, it is independent and is subordinated only to the Constitution.

The Prosecutor's Office is an autonomous institution under the judicial authority, which, within the limits of its powers and competence, defends the general interests of society, the rule of law, citizens' rights and freedoms, conducts and exercises criminal prosecution, represents the prosecution in court under the law. The Prosecutor's Office is a single, centralized and hierarchical system that includes:

- General Prosecutor's Office;
- Territorial Prosecutor's Offices;
- Specialized Prosecutor's Offices.

The General Prosecutor's Office is managed by the Prosecutor General, appointed and relieved from office by the President on the proposal of the Council of Prosecutors, with the approval of the Parliament.

The Ministry of Internal Affairs, the Customs Service, the National Anticorruption Center, the State Tax Service are law enforcement bodies vested with criminal prosecution competence. Criminal prosecution and special investigative work is conducted by the prosecutor and certain investigative and prosecution measures are carried out with the authorization of the investigating judge.

The OPFML operates as an autonomous and independent central specialist body whose functions are to receive, process, analyze and disseminate information received from reporting entities. Based on the information received, the OPFML identifies complex money laundering and terrorist financing schemes and typologies, which are handed over to law enforcement bodies and other institutions as appropriate. In carrying out its tasks, the OPFML pays particular attention to prevention, which is also reflected in the action plans for the implementation of the National Strategy for Preventing and Combating Money Laundering and Terrorist Financing.

The system has been developed in accordance with relevant international standards - FATF Recommendations and EU Directives.

In this context, the Republic of Moldova, as a member of the Council of Europe, is subject to ongoing assessment of the compliance of the national system for preventing and combating money laundering and terrorist financing with the FATF Recommendations carried out by the MONEYVAL Committee of the Council

of Europe. The Evaluation Report of the Republic of Moldova, adopted by the MONEYVAL Committee in July 2019, found deficiencies in the national system for preventing and combating money laundering and terrorist financing, placing the Republic of Moldova under enhanced monitoring regime, and submitting the necessary recommendations to redress the situation.

3. National money laundering threats

Related data and information were systematized at national and international levels in order to update the national threats and vulnerabilities in the field, based on the World Bank Methodology, which was initially used in the national risk assessment initiated in accordance with Government Decision No 697/2015. National threats and vulnerabilities are the main factors determining the risk of money laundering at national level.

The basic objectives for establishing the threats related to money laundering included as follows:

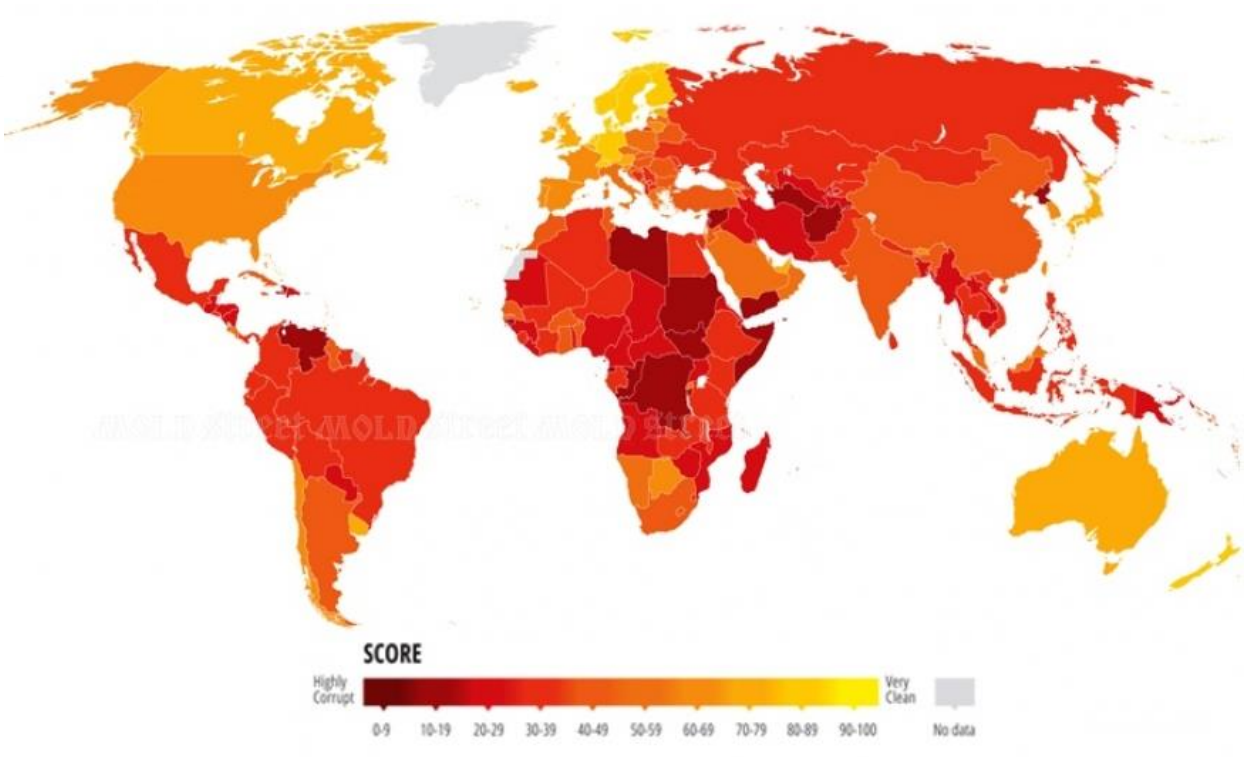
- Identification of threats in terms of the type of predicate offense generating illicit proceeds, the origin and the sector involved, the structure of crime products from different perspectives:
- Systemic collection of data on cases investigated;
- Analysis of cross-border threats originating from foreign jurisdictions.

Thus, as a result of the systematization of existing data and information, the working groups identified the following as crimes generating illicit proceeds at national level and resenting a threat: corruption, drug trafficking, tax evasion, cybercrime and smuggling.

3.1. Corruption

The Republic of Moldova climbed 5 positions in the Corruption Perception Index (CPI) for 2020, presented by Transparency International, but remains among the most corrupt countries in the world and in the region. Thus, the Republic of Moldova scored 34 on the CPI, ranking 115th[4] out of 180 countries, as opposed to the year 2019, when it ranked 120th. In the same ranking, next to our country are countries such as the Philippines (34), Egypt (33), Panama (35), North Macedonia (35), Bosnia and Herzegovina (35). The world corruption perception index map in 2020 is shown in the following graph:

[4] https://www.transparency.org/en/cpi/2020



Source: Transparency International

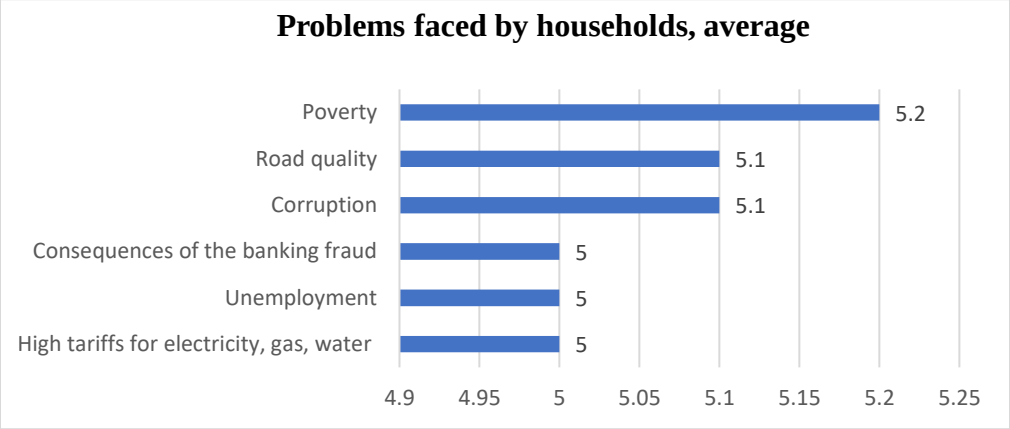
According to the Second Compliance Report of the Republic of Moldova[5], adopted by GRECO in the Fourth Evaluation Round and based on previous evaluations conducted by the Council of Europe, efforts to fight corruption are insufficient. GRECO's Fourth Evaluation Round was devoted to corruption prevention in respect of members of parliament, judges and prosecutors, with the ethical principles and rules of professional conduct, conflicts of interest, asset declarations, income, obligations and interests all being subject to the evaluation procedure. Following the evaluation, GRECO addressed 18 recommendations to the Moldovan authorities. Subsequently, 4 of these were rated as being dealt with or implemented in a satisfactory manner, 10 had been partly implemented, 4 others had not been implemented. Experts have raised concerns about MPs' ethics and immunity, as well as the prosecutors' accountability.

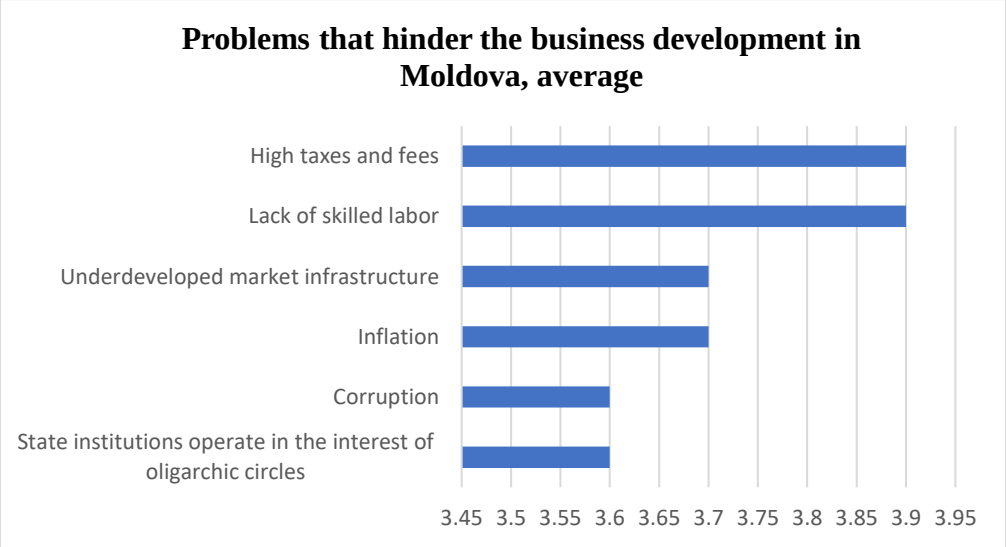
Also, in the MONEYVAL Committee's Evaluation Report of the Council of Europe[6] on the national system for preventing and combating money laundering and terrorist financing, experts found that although high-level corruption is recognized as one of the biggest problems in the Republic of Moldova, modest results have been achieved in prosecuting and convicting those involved in cases of laundering money from corruption offenses.

[5] https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/16809fec2b
[6] https://rm.coe.int/moneyval-2019-6-5th-round-mer-repmoldova/168097a396

At the same time, according to the Report, the fact that out of the total number of corruption offenses, only a small number of cases are brought to justice is a major deficiency.

According to the Transparency International Report 'Corruption in the Republic of Moldova: Perceptions vs. Personal Experiences of Business People and Households'[7], both household representatives and business people perceive corruption as a very serious problem, ranking it among the top five issues they face, alongside high taxes and charges, poverty, the consequences of the banking sector fraud, the activity of state institutions in the interests of a narrow oligarchic circle and the shortage of skilled labor.

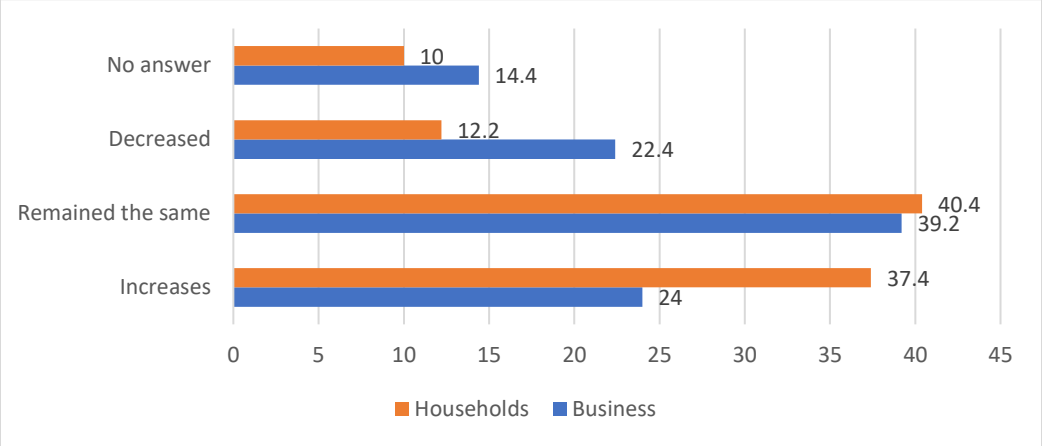




[7] http://www.transparency.md/wp-content/uploads/2018/10/Transparency_International_Cercetare_Sociologca_August_2018-_ROM.pdf

According to the report, the control of law enforcement bodies by oligarchs; the failure to hold corrupt persons accountable; and division in society, which is unable to put up any real resistance to those who have captured the state, are among the main causes of corruption.

In terms of the evolution of corruption in 2018-2019, the majority of household representatives (40.4%) and business people (39.2%) believe that the level of corruption has remained the same; 37.4% and 24% respectively believe that the phenomenon has increased, and 12.2% and 22.4% respectively believe that the phenomenon has decreased. Every 10th household representative and 7th businessperson interviewed was unwilling/unable to give their opinion.

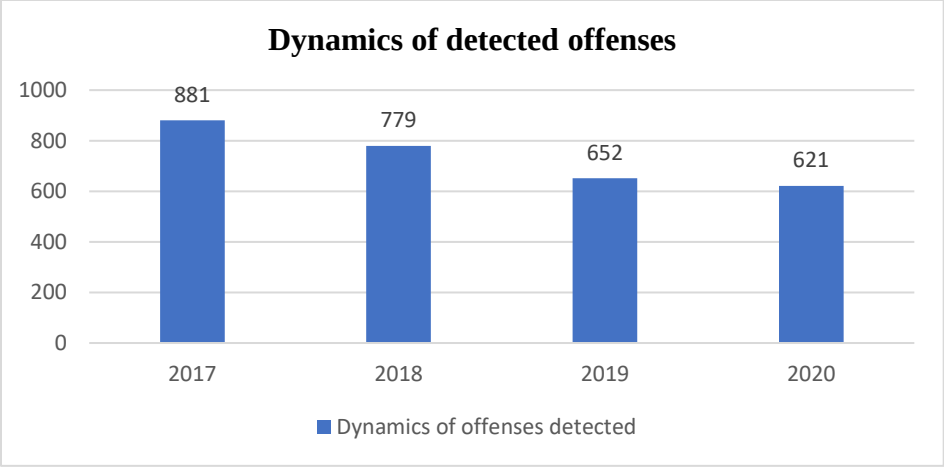


According to around 80% of household representatives and 71% of business persons surveyed, television remains the primary source of information about corruption and the state's efforts to combat it. The concentration of most TV channels around the ruling interest group, as well as possible cartel deals in the advertising market make things difficult for the independent channels, amplify the phenomenon of public opinion manipulation and deception regarding anti-corruption reforms.

As a fundamental priority of the Moldovan authorities, an anti-corruption policy document has been approved: the National Integrity and Anti-Corruption Strategy for the years 2017-2020 (approved by Parliament Decision No 56/2017). According to the United Nations Development Programme (UNDP) report 'National Integrity and Anti-Corruption Strategy Impact Monitoring Survey'[8] there are problems in both the private and the public sectors regarding aspects of the implementation of the established actions.

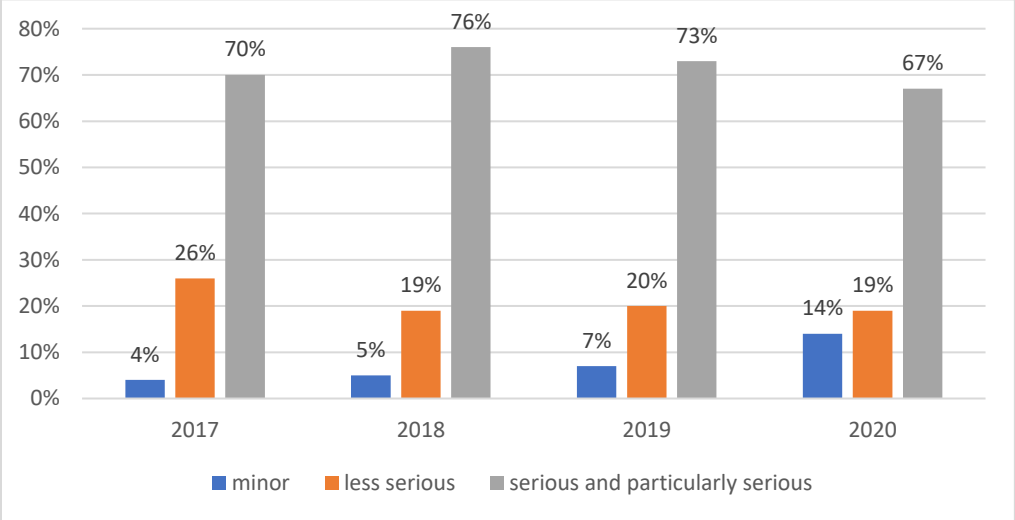
According to NAC data, during the period under evaluation, corruption and corruption-related offenses were detected as follows:

[8] https://www.md.undp.org/content/moldova/ro/home/library/effective_governance/studiu-de-evaluare-a-impactului-strategiei-naionale-de-integrita0.html



Source: cna.md

According to the criterion of the seriousness of the offenses detected, the rate of particularly serious offenses has remained high during the period under evaluation.



The education system, health services, justice, traffic safety, public order, public budget, and public property are among the areas most affected by corruption.

Categories of corruption crimes examined in court:

Type of the crime	2018	2019	2020
Passive corruption and bribery	23%	24%	17%
Active corruption and bribery	19%	18%	20%
Trading of influence	46%	43%	37%
Abuse of office	10%	15%	6%
Embezzlement of foreign wealth using the official position	2%	1%	1%

The most common cases handled by the court are crimes of trading of influence. Out of all the cases solved in court only a few are cases of active corruption and bribery (19% in 2018, 18% in 2019 and 17% in 2020).

In 2019, courts found defendants guilty in 88% of cases, compared to 90% in 2017. Acquittals and terminations of criminal proceedings were issued in the remaining cases for the same time period.

The table below shows the decisions issued in corruption cases between 2017 and 2019:

Sentences adopted	2017	2018	2019
Convictions	90%	87%	88%
Acquittals	10%	13%	12%

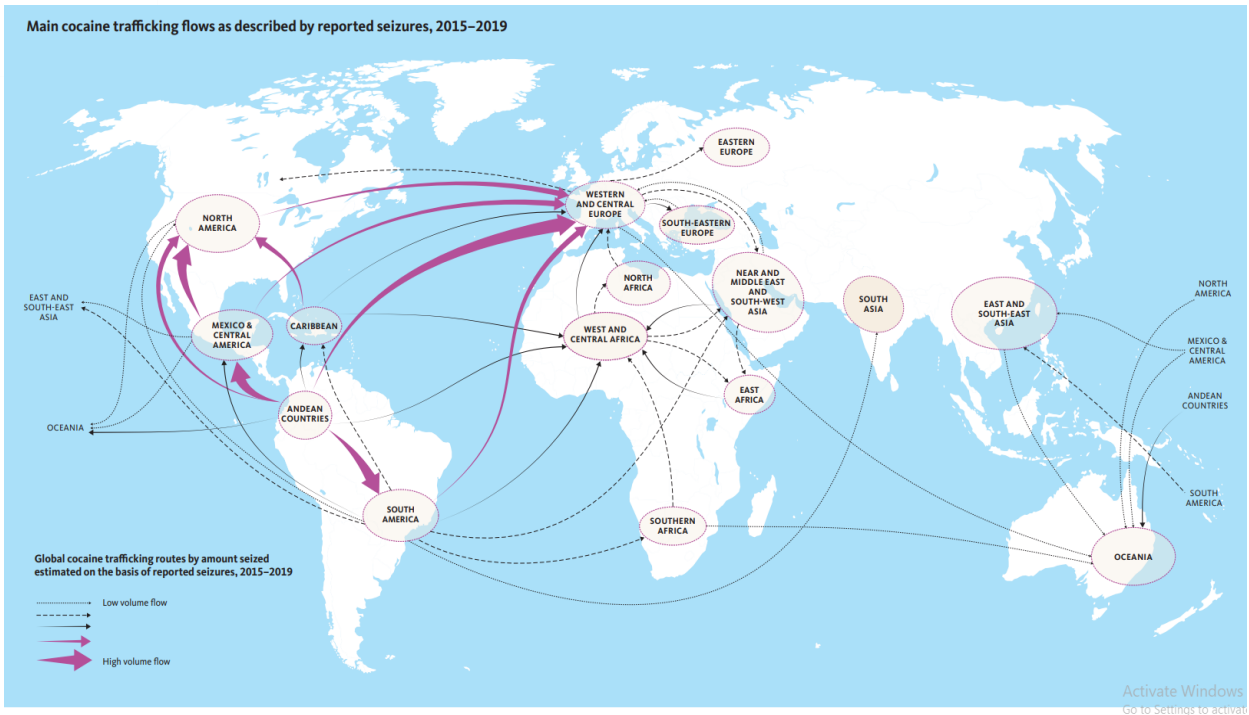
Transparency International recommends the following measures to reduce corruption:

- Strengthening supervisory bodies to ensure that resources reach those who need them most;
- Anti-corruption authorities and control bodies must have the funds and independence to exercise their functions;
- Making the conclusion of contracts more transparent in order to combat embezzlement, identify conflicts of interest and ensure fair prices;
- Defending democracy and promoting civic space to foster conditions that would hold governments accountable;
- Ensuring access to information so that the public receives timely, clear, relevant and easily understandable information.

3.2. Drug trafficking

According to the United Nations Office on Drugs and Crime (UNODC) World Drug Report 2018[9] and 2021[10], the Republic of Moldova as a country within the regional group of Eastern Europe continues to be mentioned as a drug transit country.

[9] https://www.unodc.org/wdr2018/
[10] https://www.unodc.org/unodc/en/data-and-analysis/wdr2021.html



Sources: UNODC elaboration.

The cocaine trafficking route between South America and Europe is the second largest in the world and is evolving. Cocaine production doubled between 2014 and 2019, reaching a volume of 1.7 tons in 2019, the highest ever. Analyses have shown a significant increase in the amount of cocaine consumed per capita in Europe, one of the two largest markets worldwide. According to statistics, seizures of cocaine have doubled.



Sources: UNODC elaboration.

The same is true for heroin trafficking, which was reported in 99 countries in 2019, far more than opium or morphine trafficking reported. In 2019 the quantities of heroin seized in Europe reached a record level, having tripled since 2016.

According to these reports, in recent years there has been a diversification of both the types of drugs trafficked and the distribution channels.

With the approval of the National Anti-Drug Strategy for 2011-2018 (Government Decision No 1208/2010) and for 2020-2027 (Government Decision No 233/2020), the public authorities have made a number commitments as a priority to combat drug trafficking and illicit drug use.

According to official data from the Republic of Moldova's Prosecutor's Office[11], in 2018, 1560 crimes in the field of illegal circulation of drugs, ethnobotanicals or their analogues were recorded, with a total of 1956 criminal cases investigated, including from previous years, with 358 more than in 2017, which represents an increase of 18.3%.

In order to achieve the objectives of correct and systematic implementation of the legal provisions and methodologies relating to financial investigations, with a view to tracing and confiscation of criminally derived assets, following the initiation of parallel financial investigations on criminal cases involving crimes of illegal drug trafficking, criminally derived assets and funds were identified and seized for special confiscation in the total amount of MDL 3,560,750. The cumulative value of assets seized under court sentences for the reporting period is MDL 3,074,717.

In 2019[12], 1188 crimes in the field of illegal circulation of drugs, ethnobotanicals or their analogues were recorded, with a total of 1689 criminal cases investigated, including from previous years, with 267 fewer criminal cases than in 2018, which represents an insignificant decrease of 13.6%.

In the same context, criminally derived assets and funds were identified and seized for special confiscation in the total amount of MDL 3,885,066. Similarly, the cumulative value of assets seized under court sentences for the reporting period is MDL 351,451.

In 2020[13], 1003 crimes in the field of illegal circulation of drugs, ethnobotanicals or their analogues were recorded, with a total of 1509 criminal cases investigated, including from previous years, with 185 fewer criminal cases than in the previous year, which represents a significant decrease of 15.4%.

Following the initiation of parallel financial investigations on criminal cases involving crimes of illegal drug trafficking, criminally derived assets and funds

[11] http://procuratura.md/file/2019-03-05_Raportul%20Public%20activitatea%20Procuraturii%20Generale%20anul%202018.pdf
[12] http://procuratura.md/file/Raport%20public%20Procuratura%202019%20rectificat%2004.05.2020%20.pdf
[13] http://procuratura.md/file/Raport%20de%20activitate%20a%20Procuraturii%20Republicii%20Moldova%20pentru%20anul%202020.pdf

derived were identified and seized for special confiscation in the total amount of MDL 1,921,678.

According to the Ministry of Internal Affairs' report, one of the main risks and threats identified in the external environment is the consolidation and specialization of organized crime networks, their internationalization and the attraction of local elements and groups, as well as the inclusion of our country in the transnational circuit of illicit drug trafficking. A high internal risk to national public order and security is the sale of drugs via the internet.

The process of communication between people and the exchange of information has become easier thanks to the evolution of information technology, the emergence of social networks, and messaging apps. Thus, the development of modern technologies has also become a useful tool for drug dealers. Currently, online apps provide owners of virtual drug shops with the concealment of criminal activities and drug users with easy access to these substances.

In some apps, there are chats or limited-access groups that include drug sellers and users. These networks display the prices and types of drugs sold. The person indicates their locality, the drug and the quantity requested, then transfers an amount of money to the administrator's account, a bank account or an e-wallet account.

Over the years, some of these services have faced censorship or bans in some countries over allegations that the apps were being used to facilitate illegal activities. Telegram is currently blocked or partially banned in the Russian Federation, China, Iran and Afghanistan.

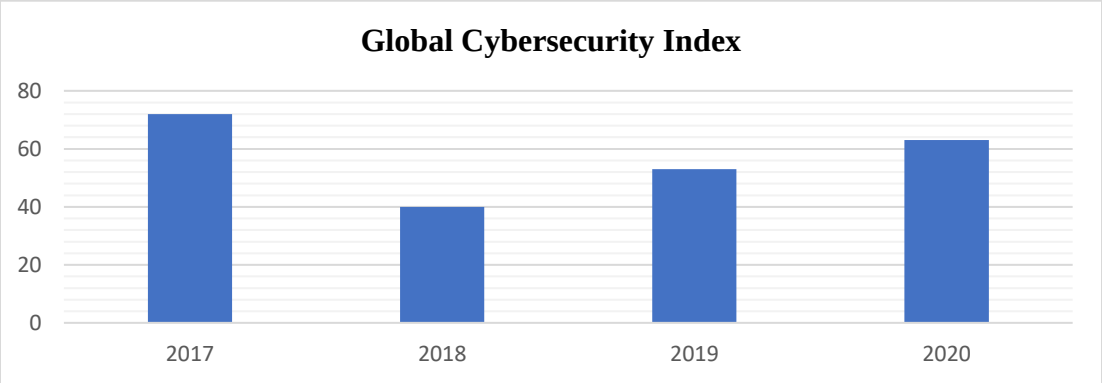
Money transfers take place via payment terminals or ATMs, and payment is confirmed by a photo of the terminal screen or a receipt. Following the transfer, the person is given an address, with a photo of the place called the 'hideout', from where the requested drug is taken. To specify the location of the drug, some online shop administrators send coordinates with an exact geolocation and a photo.

Thus, the domestic banking and nonbanking financial system is used by drug dealers to carry out illicit activities involving drugs, ethnobotanicals or their analogues. An important problem at the national level is also the introduction into the legal circuit, via various money laundering schemes, of money coming from the illegal activity of drug trafficking.

3.4. Cybercrime

Cybercrime is a category of crime, including computer and information systems crime (hacking), computer-related fraud and forgery (phishing), but also forms such as the dissemination of child pornography online.

According to the report on the Global Cybersecurity Index conducted and analyzed by the International Telecommunication Union, the Republic of Moldova was ranked 73rd in 2017[14] and 63rd in 2020[15] for the period under evaluation.



Source: itu.int

This index is focused on EU government policies and legislative structures and is a trusted benchmark that measures countries' commitment to cybersecurity globally with the goal of raising awareness of the importance and different dimensions of existing problems.

Nonetheless, the rapidly expanding field of information technology and information systems has left its mark on all areas of social, economic and civil life, etc., and has had a decisive influence on humanity's progress. In addition to its many advantages, this true 'cyberspace' provides the possibility of committing crimes in a non-traditional manner.

The regulation of cybercrime in national legislation came as a natural adaptation of legislation to realities that could not be ignored. Thus, the chapter 'Computer Crimes and Crimes in the Telecommunications Sphere' was first introduced in the Criminal Code of the Republic of Moldova[16], which was adopted by Law No 985/2002, and entered into force since 12.06.2003. It initially contained three articles: Article 259 'Illegal Access to Computerized Information', Article 260 ' Illegal Production, Importation, Marketing, or Offering of Technical Means or Software Products' and Article 261 'Violation of Data System Security Rules'.

After the Republic of Moldova ratified the Council of Europe Convention on Cybercrime, which was adopted in Budapest on 23.11.2001, by Law No 6/2009[17], the Criminal Code of the Republic of Moldova, which had been harmonized with the Convention by Law No 278/2008, was supplemented with new articles 60^1-260^6, which provided for new types of crimes such as illegal interception of data transfer, impact on data system operation, information data forgery, information fraud, etc.

[14] https://www.itu.int/dms_pub/itu-d/opb/str/D-STR-GCI.01-2017-PDF-E.pdf
[15] https://www.itu.int/dms_pub/itu-d/opb/str/D-STR-GCI.01-2021-PDF-E.pdf
[16] https://www.legis.md/cautare/getResults?doc_id=109495&lang=ro
[17] https://www.legis.md/cautare/getResults?doc_id=23601&lang=ro

Under Law No 20/2009[18] on Preventing and Combating Cybercrime, 'computer system' means any isolated device or set of interconnected or linked devices that provides, or of which one or more elements provide automatic data processing by running a program. Thus, a cybercrime can be committed not only via the computer itself, which is used in daily activities, but also via a diversity of mobile (cellular) communication devices and communications systems.

Cooperation of the prosecuting officer and prosecutor with Internet service providers, telecommunications operators, and other private bodies in the field is also an important aspect in the conduct of cybercrime investigations.

According to data from the Prosecutor's Office, there has been a steady increase in this type of crime over the years.

Evolution of the criminal cases registered during 2005 – 2020

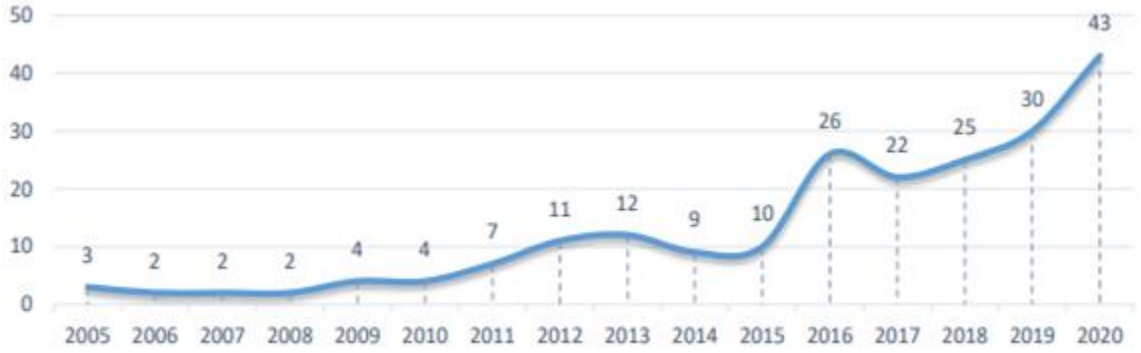


Source: procuratura.md

These types of crimes are difficult to detect, and the investigation of such crimes requires continuous improvement of knowledge in this area. The legal classification of such an act is usually more complicated than the criminalization of other types of criminal activities.

[18] https://www.legis.md/cautare/getResults?doc_id=12753&lang=ro

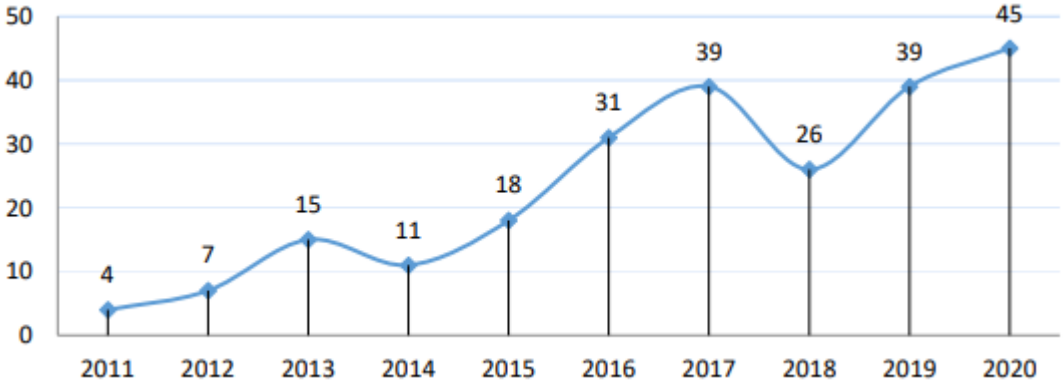
Statistics on the criminal cases started based on art. 177 of the Criminal Code



Source: procuratura.md

The graph shows a significant increase in the number of criminal cases initiated under Articles 177 and 208[1] of the Criminal Code. These criminal cases account for about 73.94% of all criminal cases initiated on cybercrime in 2020.

Statistics on the criminal cases started based on art. 208[1] of the Criminal Code



Source: procuratura.md

Generalizing the above, it can be seen that cybercrime is constantly evolving and diversifying as a result of continuous technological advancements, which in turn result in the emergence of new apps and devices, allowing criminals to reshape their operating techniques and create new opportunities to commit cybercrime.

The development and spread of ransomware, botnets and unauthorized interference with information systems has an impact on the security of individuals, the availability and integrity of personal data and the protection of their privacy and fundamental freedoms. A considerable number of cyber-attacks against individuals or legal entities often remain unreported, undetected or undiscovered, thus encouraging perpetrators to continue their criminal activity, also due to the lack of timely sanctioning of their illegal acts.

During the period under evaluation cases of 'social engineering' fraud, based on obtaining confidential information from international companies through psychological manipulation, were reported. Once obtained, the information is used by criminals to simulate contractual relationships, with the false order of a senior

manager to urgently transfer certain funds to the accounts of unknown companies, which in turn are transferred to a chain of intermediaries in various countries. The money was to be transferred to Chinese companies on the basis of fictitious contracts for the purchase of industrial machinery.

3.5. Tax evasion

During the reporting period, the State Tax Service undertook extensive measures each year to encourage voluntary taxpayer compliance intended to prevent tax evasion. This program provides for policies to assist and support taxpayers who pay their taxes on time and in full, as well as policies to detect and deter taxpayers who knowingly evade taxes and other compulsory payments, ensuring that they are unavoidably sanctioned.

Also, the Public Finance Management Development Strategy 2013-2020[19] (which has been extended until 2022) was approved, which includes measures in the action plan for the development by the State Tax Service of comprehensive policies to prevent and combat tax evasion and tax fraud, including by strengthening fraud investigation capacities and developing the system for identifying tax evasion risks.

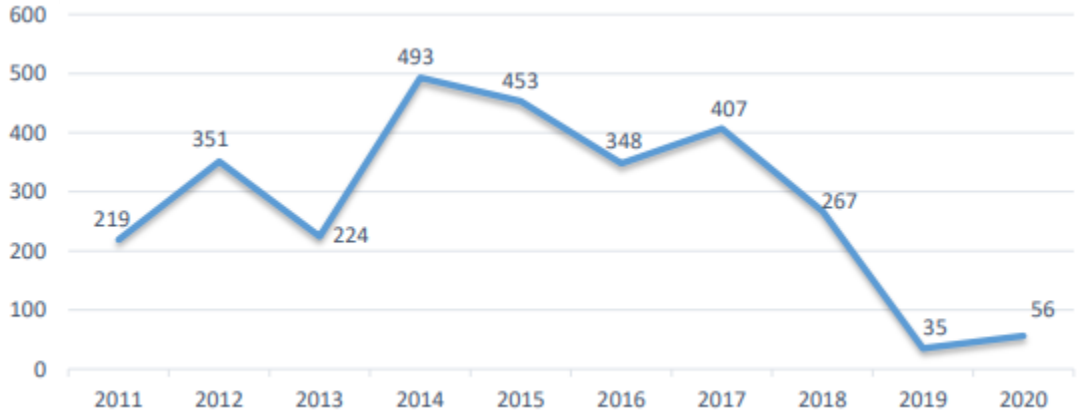
Tax evasion in the Republic of Moldova has reached the point where it has a strong negative impact on tax revenues, but especially on economic growth.

The immediate effects of tax evasion are uncollected revenues to the state budget (tax discrepancy). The extent of this phenomenon is mainly due to institutional dysfunction, characterized in particular by limited administrative capacity to coordinate and manage the economic system and the relationships that make it up. Furthermore, tax evasion is due to the perception of high tax pressure, the complexity and instability of tax regulations, the inefficiency of tax administration, moral hazard in the context of multiple tax reliefs, and contagion (when some people observe other people's behavior and try to replicate it for financial gain). Corruption has also contributed to the intensification of this process, and one of the underlying causes may be society's opinion and the culture created around it.

The cooperation of law enforcement bodies has uncovered several criminal schemes used by the managers of a string of illegal businesses, which have committed tax evasion of hundreds of thousands and millions of lei. To ensure the recovery of the damage caused to the state by these crimes, financial and material assets were seized. According to data from the Prosecutor's Office of the Republic of Moldova, the number of crimes detected has decreased.

[19] https://www.legis.md/cautare/getResults?doc_id=125171&lang=ro

Statistics on tax evasion crimes registered during 2011 - 2020



Source: procuratura.md

This is explained by the amendments approved by Law No 179/2018[20] amending certain legislative acts. Thus, the amendments to Article 244 'Tax Evasion by Enterprises, Institutions, and Organizations', tax evasion by enterprises, institutions, and organizations by intentionally including into accounting, fiscal, and/or financial documents, including electronic documents, obviously distorted data on revenues or expenses not based on real transactions or based on transactions that did not take place, or by intentionally concealing other taxable items, accounting, tax and/or financial documents, is punishable if the cumulative amount of the tax, the tax provided for by the Tax Code, the compulsory social security contribution or the compulsory health insurance premium for a fiscal year exceeds 50/100 of the forecast average monthly national salary, established by the Government Decision in force at the time of the crime. This amendment which increased the amounts falling under the provisions of the Criminal Code has strongly influenced this phenomenon, but has not completely eliminated it. Similarly, when establishing infringements exceeding the aforementioned amounts during the taxpayer control procedures, the documents are handed over to the legal bodies for examination.

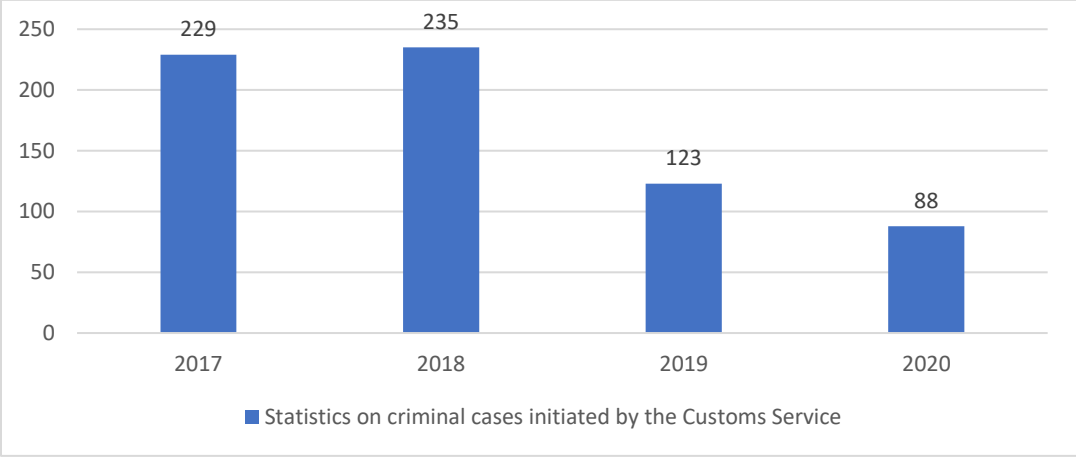
3.6. Smuggling

Under Article 248 of the Criminal Code, smuggling is defined as the transportation on a large scale of goods, objects, narcotic, psychotropic, toxic, poisonous, radioactive and explosive substances, and substances that produce strong effects, weapons, explosive devices, and ammunition and other valuables across the customs border of the Republic of Moldova circumventing customs control or concealing the goods from customs control by hiding them in compartments

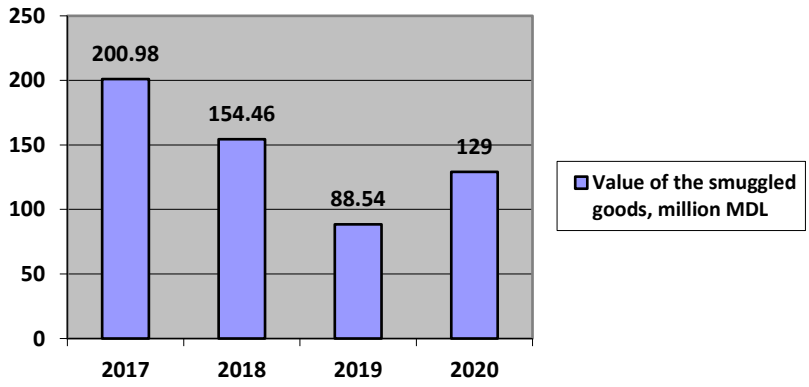
[20] https://www.legis.md/cautare/getResults?doc_id=105536&lang=ro

specially prepared or adjusted for this purpose or fraudulently using documents or other means of customs identification or involving the non-declarations or inauthentic declarations in customs documents or in other border-crossing documents.

Thus, according to statistical data, the evolution of criminal cases filed by the Customs Service (Article 248 Criminal Code) between 2017 and 2020 is as follows:



The number of criminal cases has been steadily increasing from 2017 to 2020, but in 2019 there was a significant decrease of 47% (or 112 criminal cases), and in 2020 only 88 criminal cases were recorded, a 28% decrease. This is due to a series of amendments to Moldova's criminal and criminal procedure legislation, which significantly increased the ceiling of the amount of smuggled goods required for the act to be considered a crime from 20 to 100 average monthly salaries (or from MDL 130,000 to MDL 795,300). As a result, some of the crimes have 'migrated' and are now being prosecuted as contraventional offenses. According to criminal cases for 2017-2020, the value of smuggled goods was:



According to statistics, the value of smuggled goods decreased steadily from 2017 to 2019, with a decrease of 23% in 2018 compared to 2017 and 42% in 2019 compared to 2018. In 2019, the value of smuggled goods decreased by 55% compared to 2017, and in 2020 the total value was estimated at MDL 129,051,433,

which is also due to the amendments to Moldova's criminal and criminal procedure legislation, which significantly increased the ceiling of the amount of smuggled goods required for the act to be considered a crime from 20 to 100 average monthly salaries (or from MDL 130,000 to MDL 795,300).

Smuggling in the Republic of Moldova is driven by internal and external risks, namely:

- Illicit drug trafficking. The state's vulnerability to illicit drug trafficking depends on the effectiveness of measures taken to reduce drug demand and supply on the Moldovan market, as well as the use of the Republic of Moldova as a transit country for drugs traveling from east to west and vice versa. Therefore, between 2017 and 2020, the number of criminal cases related to illicit drug trafficking has continuously increased. Compared to 27 criminal cases filed in 2017, this indicator increased to 33 criminal cases in 2018, 57 criminal cases in 2019, and 33 criminal cases in 2020. The amount of drugs seized was: 13.63 kg in 2017, 0.368 kg in 2018, 0.907 kg in 2019, and 13.42 kg in 2020.

- Smuggling of cigarettes and tobacco products. The main risk factor in this area is the significant price difference in tobacco products, which generates both intent and impressive profits for criminal groups. The Transnistrian region is also an important source of tobacco products which significantly affects both the state budget and the image of the Republic of Moldova internationally. It should be noted that the practice of individuals transporting cigarettes illegally in their personal vehicles persists, with cigarettes hidden/camouflaged in the vehicle (e.g. in the spare wheel, seats, bumpers, fenders, glove compartment, audio speakers, car gas installation, fuel tanks, etc.). Hiding places in heavy trucks include: double walls, the space between the double walls of thermos-like tank trucks, double floor, toolbox, as well as disguising among the goods transported, etc.

As a result, between 2017 and 2020, the number of criminal cases involving cigarette smuggling, as well as the quantity of cigarettes smuggled, has been steadily decreasing. Compared to 15 criminal cases filed in 2017 (with 13.128 million cigarettes and 13.4 tons of tobacco), this indicator decreased to 4 criminal cases in 2018 (with 13.17 million cigarettes and 400 kg of tobacco), 1 criminal case in 2019 (with 1.5 million cigarettes), and 2 criminal cases recorded in 2020 (with 2,730 kg of hookah tobacco and 1,216,380 cigarettes). Thus, in 2018, the number of criminal cases decreased by 73%, although the quantity of cigarettes seized was higher than in 2017.

According to statistical data (criminal cases and customs offenses), in 2019, illicit cigarette trafficking (both cases and quantity) decreased by 81% compared to 2017 (2020 — 219 cases and 3.2 million cigarettes; 2019 — 59 cases and 3.37 million cigarettes; 2017 — 319 cases and 17.82 million cigarettes).

- Illicit trafficking in medicines and medicinal products. According to statistical data, smuggling of these types goods is common at both the entry and exit points of the country. Essential drugs, whose prices on the domestic market are

substantially higher than in the country of production, are typical of the introduction into the country. The lack of a transparent price formation mechanism encourages the fraudulent introduction of medicines in Moldova. Upon leaving the Republic of Moldova, frauds with medicinal products from the anabolic steroids category, which are sold on the Republic of Moldova's territory without a medical prescription and at significantly lower domestic prices than those found abroad, are typical.

Therefore, between 2017 and 2020, the number of criminal cases related to medicines, including their value, has continuously decreased. Compared to 5 criminal cases filed in 2017 (amounting to MDL 9.5 million), this indicator decreased to 3 criminal cases in 2018 (amounting to MDL 382,700), 1 criminal case in 2019 (amounting to MDL 793,500), and 3 criminal cases in 2020 (amounting to MDL 10.8 million). According to statistical data (criminal cases and customs offenses), in 2019, illicit medicine trafficking cases decreased by 80% compared to 2017 (2019 — 5 cases and MDL 924,000; 2018 — 2 cases and MDL 407,820; 2017 — 25 cases and MDL 10.52 million).

- Illicit trafficking in foreign currency or non-declaring of foreign currency valuing over EUR 10,000 is a phenomenon characteristic both when entering and exiting the Republic of Moldova. Thus, there has been a continuous downward trend in cases and the amount of undeclared currency from 2017 to 2020 (criminal cases and customs offenses). In 2020, 3 criminal cases were recorded (approximately EUR 1.6 million). In 2019, 3 cases of illicit currency trafficking were prevented (approximately EUR 141,000), 4 down from 2018 (7 cases, EUR 100,515) and 9 down from 2017 (12 cases, EUR 233,700).

- The territory beyond the control by the constitutional authorities of the Republic of Moldova (Transnistria region). This phenomenon raises the risk of consumer goods being fraudulently introduced into the country by circumventing internal customs control posts, endangering both the country's public and economic security. According to statistical data, there is a very wide range of goods in the Transnistrian region: petroleum products, foodstuffs, household electrical appliances, tobacco products, etc., with the volume of some types of goods exceeding domestic consumption capacity. We can, therefore, presume that some of these goods will be smuggled into Moldova from the Transnistrian region.

- Inaccurate declaration or non-declaration of goods by individuals and legal entities in bad faith by hiding/camouflaging the goods, or by fraudulently using documents or other means of customs identification.

- Reduction of the customs value of goods by using off-shore regions/zones, free economic zones in other countries, or by substituting customs documents, especially for goods dispatched from countries with which the Customs Service does not have customs cooperation/exchange of information agreements (e.g. China, Argentina, United Arab Emirates, India, Brazil, etc.). This is a very important topic since import duties, paid to the state budget, are calculated based on the value of the goods declared, and in the absence of the above-mentioned agreements it is

practically impossible to verify the correctness of the value of the goods declared through administrative assistance.

4. National threats of terrorist financing

4.1. General information on risks and terrorist threats

Extremist-terrorist risk management and operational situation assessments suggest that counter-terrorist security issues have a low level of manifestation and impact at the national level. This is primarily due to the geo-political and strategic situation at the international level, to the successful eradication of the main hotbeds posing a threat of terrorism and of active theatres of operations, as well as to the efforts undertaken at national level by the competent authorities.

This state of affairs is also reflected in international assessments, which show a decrease in the terrorism index for the reference period, according to data from the Institute for Economics and Peace[21].

Year	Terrorism Index	Ranking of the Republic of Moldova
2017	0.2/10	116/163
2018	0.1/10	123/163
2019	0.1/10	126/163
2020	0.16/10	99/163

In order to collect, integrate, and analyze data on the state, dynamics, and trends of terrorist manifestations with an impact on the Republic of Moldova's national security, the Security and Intelligence Service has concentrated its efforts on the following areas:

- The Republic of Moldova - Transit zone in the context of the phenomenon of Foreign terrorist fighters.

The Republic of Moldova is an integral part of international processes addressing the threat posed by people travelling abroad for terrorist purposes. The national authorities are aware of the risks posed by this phenomenon, in part because the national territory is used as a transit zone for the movement of terrorists/exponents/sympathizers of terrorist groups to conflict zones (primarily on the route Moscow/Russian Federation – Chisinau/Republic of Moldova – Istanbul/Turkey – Middle Eastern states).

In most cases, Turkey is the most important transit point for jihadists on their way to Syria or Iraq. Most of the routes are concentrated on Turkish territory, with the actual crossing of the Syrian border taking place by land.

[21] https://www.economicsandpeace.org/reports/

Although the Republic of Moldova does not face a major Foreign Terrorist Fighters phenomenon, it is located on an isolated land route of European fighters in transit to Syria and Iraq.

During the reference period, several attempts to enter the national territory by foreign nationals suspected of links with terrorist entities in the Middle East, including links with foreign exponents in areas of influence of international terrorist organizations, were documented.

According to the data, citizens of the Russian Federation, the Republic of Uzbekistan, the Republic of Tajikistan, and the Republic of Pakistan were the majority of those reported on arrival into the country on suspicion of involvement in terrorist activities.

To this end, at border crossing points, the competent authorities undertake profiling actions, which are measures to identify and counter possible attempts to travel abroad for terrorist purposes and target groups suspected of having ties to terrorist activity.

The most common indicators used to identify these persons were: physical appearance specific to supporters of Islamic fundamentalist ideology (beard, bruises on the forehead, hijab), aggressive behavior, presentation of false travel documents, presence of extremist literature.

Various information carriers (USB flash drive, mobile phone) were also detected, containing photo, video, audio, and text material with radical content, as well as equipment for overnight stays in open fields/forest areas, maps, and travel guides.

Persons detained at state border crossing points were denied entry into the country, declared undesirable and returned in accordance with the international agreements to which the Republic of Moldova is a party.

At the same time, the lack of control of the constitutional authorities over the border in the Transnistrian portion is a vulnerability in this context, as this region could easily be used for the entry of other persons affiliated with international extremist-terrorist groups.

As a result of the prevention measures implemented in the general context of regional and international counter-terrorist security, the number of transit cases of persons suspected/connected to international extremist-terrorist actions has decreased, as follows: 30 cases in 2017, 13 cases in 2018, and 12 cases in 2019.

- Flow of foreign nationals from risk areas

The flow of foreign nationals from risk areas is monitored by using a risk-based approach, namely the risk of clandestine transit and/or stationing of extremist-terrorist elements in the country.

The phenomenon is analyzed/investigated from the perspective of preventing the establishment of exponents of extremist-terrorist currents generated by Islam (with the goal of supporting terrorist networks, organizations and groups) on national territory, as well as its implications and possible forms of manifestation, such as the

penetration and spread on national territory of jihadist literature in support of international terrorist organizations; the establishment of clandestine centers/places for radicalization and/or recruitment of terrorists; the establishment of bases or elements of infrastructure (warehouses, hideouts, conspiratorial places, etc.) and others.

Foreign terrorist fighters use various methods to avoid detection when entering the country in order to hide their membership/involvement in terrorist activities and evade criminal responsibility, such as obtaining false travel documents, concluding fictitious marriages (to obtain residence/citizenship in a third country), infiltrating refugee groups, and using the support of cross-border criminal organizations to reach the destination point.

In practice, terrorists frequently exploit refugee and/or asylum seeker status to obtain legal cover in third countries, and visa/asylum seekers are a special category in this regard. In this context, the Security and Intelligence Service takes operational and counter-intelligence measures until the request is authorized in order to prevent terrorist elements from entering and establishing on the national territory. People are mainly screened for membership in terrorist groups or engagement in other manifestations of violent extremism. In addition, national operational and international cooperation efforts are strengthened to prevent any abuse of refugee status in violation of international provisions.

For the reference period, management data show a decrease in visa applicants from risk areas, such as Afghanistan, Syria, Iraq, Pakistan, and Libya. At the same time, there has been an increase in visa applicants from Nigeria, Lebanon, Cameroon and Bangladesh, all of which also face a high level of terrorist threat.

Another relevant aspect in this context is the management of the risk of using the national territory as a clandestine training and staging area for members of international terrorist entities (by establishing inhibited terrorist cells), for their subsequent referral to participate in combat actions in the Middle East, plan/commit possible terrorist attacks in Moldova or abroad, accumulate financial resources, or obtain other support for terrorist purposes.

In this context, the Security and Intelligence Service continued its operational efforts to identify and/or prevent the use of national territory for the proliferation of any causes and conditions conducive to terrorist activities, including financial and logistical support.

During the reference period, the competent authorities' prevention and countermeasures allowed them to avoid situations of major risk or harmful consequences in the context of managing the flow of foreign nationals from countries at risk.

As the national authority in the field of preventing and combating terrorism, the Security and Intelligence Service takes a preventive approach, closely monitoring suspected foreign fighters and returnees to prevent any terrorist risks from materializing. Cooperation with national bodies responsible for preventing and

combating terrorism, as well as with external partners is a key component of the preventive approach.

- The issue of Moldovan citizens repatriated from conflict zones

Since 2018, after the defeat of ISIS by international coalition forces, many foreign citizens (including citizens of the Republic of Moldova) have been assigned to the Al-Roj and Al-Hawl refugee camps in north-eastern Syria, controlled by Kurdish militant troops.

Currently, only a few Western countries have taken the necessary steps to repatriate their citizens and their families from Syrian refugee camps. One of the main reasons why countries do not repatriate their citizens is the national security risk posed by the persons in question.

Actions to monitor the situation of repatriated persons were carried out in light of the dynamics of the issue of Moldovan citizens living in conflict zones, in the proximity of the territory on which ISIS terrorist group is operating.

In this regard, it should be noted that returnees from international terrorist groups could pose possible threats to national security (promotion of extremist-terrorist ideologies and radicalization of indigenous citizens; creation of terrorist sleeper cells; terrorist financing or other support for terrorist purposes).

During the reference period, the national authorities ensured the repatriation of a citizen of the Republic of Moldova and his two minor children. This person is currently involved in social reintegration activities. At the same time, there are signs of this person's Islamist radicalization. The Security and Intelligence Service has also identified other Moldovan citizens and/or natives in Syrian refugee camps who are looking for ways to return to Moldova.

In parallel, several cases have been reported where Moldovan citizens residing in Syria (not necessarily in refugee camps) have requested from the national authorities to be repatriated together with their families. Competence checks carried out in partnerships revealed relevant data regarding the priorities of preventing and combating terrorism.

In this context, measures have been taken to identify/assess potential red flags in terms risks posed to counter-terrorist security with regard to repatriated persons, as well as those who are considering returning to the country. The Security and Intelligence Service keeps counter-terrorist threats in their focus and believes it is wise to take an objective and complex approach to the issue in question in order to ensure the safe return of Moldovan citizens and to prevent any potential extremist-terrorist risks or support for terrorist purposes.

The destabilization of the situation in the Middle East (Syria, Iraq, Afghanistan, and Pakistan), the activation of military opposition groups and international terrorist organizations, the retreat of terrorists to other areas, and the creation of ‘sleeper cells’ all have been causes of insecurity developments during the reference period.

As a result, the main source of threat has been the fragmentation of ISIS into hundreds of 'sleeper' cells, their retreat to territories (Afghanistan, Pakistan, etc.) bordering CIS member states, and the return of members of terrorist groups who fought in Syria and Iraq to their countries of origin — mainly Europe. The returnees phenomenon and so-called Foreign Terrorist Fighters (FTF) have therefore continued to be a threat to regional security, despite the fact that the number of foreign terrorist fighters has declined significantly in recent years.

Although various risk factors and/or vulnerabilities in terms of counter-terrorism security have been identified, the data collected show that the Republic of Moldova is not directly threatened by international terrorist groups, either as a target of terrorist acts or as a territory used for planning and carrying out terrorist activities.

During the reference period, the national security situation remained unchanged, with the terrorist threat level being low.

Despite these trends, the issue of terrorism has remained a focus for the relevant authorities' attention, particularly the Security and Intelligence Service, which serves as the national authority in the field, with the main emphasis on preventive measures. The organization of the process of counter-terrorism training and promotion of a security culture has been a priority in this regard, and various practical steps have been implemented in this context:

- Counter-terrorism training courses for staff responsible for critical infrastructure targets (energy sector, mass gathering places, high-risk targets, employees and security services in hotel complexes);
- Counter-terrorism training courses for staff of special-purpose units of state security and defense bodies ('Reactive and response measures in terrorist crisis situations');
- Counter-terrorism training courses for employees of specialized private centers selling firearms and ammunition and specialized shooting ranges ('Identification of suspects in the light of counter-terrorism security');
- Counter-terrorism training courses for private security agencies in the Republic of Moldova ('Terrorist risks in critical infrastructure and response procedures');
- Counter-terrorism training measures and an assessment of the Republic of Moldova's diplomatic missions' level of protection ('Terrorist risks and protection of diplomatic premises');
- Practical measures for preventing and combating terrorism (International Counter-Terrorism Exercise 'Strong Border – 2017');
- Practical measures for national counter-terrorism capacity building — International Counter-Terrorism Exercise 'BUCOVINA – 2018' (RM+Ukraine+Romania);
- Meetings/roundtables to promote security education in educational institutions (working meetings with the Ministry of Education, Culture and Research

on the implementation of materials related to the promotion of security culture in the upper secondary education system).

4.2. The use of nonprofit organizations to finance terrorism

This section aims to reflect the general framework of nonprofit organizations' activity, assess the current state of the sector, existing difficulties and priority directions for development. The primary goal is to identify the main risks posed by the nonprofit sector in terms of terrorist financing and the key vulnerabilities that can be exploited to support or promote terrorism and its financing.

Given that national legislation does not impose any restrictions on nonprofit organizations' ability to participate in the collection or distribution of funds for the aforementioned purposes, it should be noted that any nonprofit organization is entitled to organize public fundraising. In this regard, it is impossible to compile an exhaustive list of the categories of national nonprofit organizations falling under the FATF definition. Thus, in the context of the proposed assessment, additional criteria and risk indicators that indicate the vulnerability of nonprofit organizations to terrorist financing are to be established.

International practice and expertise in the field has identified multiple cases of terrorists or terrorist organizations using and exploiting nonprofit organizations for the purpose of collecting and transferring funds, providing logistical support, promoting recruitment of new followers, or providing other support for terrorist purposes. Such actions not only facilitate terrorist activity but also undermine the confidence and integrity of the nonprofit sector. In this context, it is necessary to identify categories of nonprofit organizations that are at risk of being used for terrorist financing and apply proportionate recovery measures in accordance with a risk-based approach.

Based on the requirements of FATF Recommendation 8, the following main benchmark goals have been formulated in the context of this study:

1. Identify the types of nonprofit organizations that are at risk of being used for terrorist financing due to their characteristics or activities;
2. Determine the nature of the threat posed by terrorist entities to the nonprofit sector and the specific ways in which nonprofit organizations can be exploited for terrorist purposes;
3. Provide the necessary framework for reviewing, establishing and implementing measures appropriate to the risks identified.

The dynamics of nonprofit organizations' relationships, as well as the strengthening of trends toward their exploitation for terrorist purposes, support the need for a complex and multilateral approach to the issue in question, in order to ensure the transparency of the nonprofit sector's framework of activity, as well as the financial system's overall safety.

Article 14 of Law No 308/2017 on preventing and combating money laundering and terrorist financing contains special rules to be applied in the context of the state registration procedure of nonprofit organizations, which are relevant in the light of the risk of terrorist financing. Therefore, when registering a nonprofit organization, the competent authority verifies that the founder, managing director, or beneficial owner is not on any list of financial sanctions, that there is no suspicion of affiliation with persons, groups, or entities involved in terrorism, and that if such suspicion arises, the competent authority refers the matter to the OPFML.

As the key competent body responsible for preventing and fighting money laundering and terrorist funding, the OPFML approved by Order No 16/2018 the guide on identifying suspicious terrorist financing activities and transactions. The goal of this guide is to identify suspected terrorist financing activities and transactions in order to prevent terrorists and/or terrorist groups from using the banking, nonbanking financial system, and other professional participants. This guide's objective is to assist reporting entities in identifying suspicious terrorist financing transactions and activities by providing criteria and typologies to improve in the analysis process.

During the period 2017-2020, the majority of nonprofit organizations working in the Republic of Moldova were funded by international donors through projects and/or grants. The main active donors remain the European Union, USAID, the Government of Sweden/Swedish International Development Cooperation Agency, the Swiss Agency for Development and Cooperation, UN Agencies, the Embassies of USA, Austria, UK, Germany, Slovakia. Other important funding organizations present in the Republic of Moldova are Soros Foundation–Moldova, East Europe Foundation, Konrad Adenauer Foundation, SOIR, and HEKS.

In terms of funding source, it is worth mentioning that 75% of nonprofit organizations received external funding, with the share of external funding accounting for more than 80% of all funding sources annually. At the same time, 52% of the nonprofit organizations benefited from local private sources (individuals and companies) and 20% from state sources. Another 20% had income from economic activities.

Compared to 2017-2018, the number of nonprofit organizations reporting profit and/or loss increased by roughly 15% in the first quarter of 2020, while non-declaration practices decreased by 5% -10% (against the background of the registration of new organizations).

Every second nonprofit organization is entirely dependent on grants/funds from external donors, which account for 80-100% of the organization's total income.

Active nonprofit organizations also derive income from the provision of services (7.2% of total income), membership fees (10.5%), contributions from economic operators (3.2%) and contributions from the general public (2.1%).

One aspect of the focus on nonprofit organizations is the legal mechanism whereby taxable individuals in the Republic of Moldova can redirect 2% of their

income tax to a nonprofit organization, which develops/promote the transparency of donations and contributions to nonprofit organizations.

Most of the nonprofit organizations that have benefited from this 2% of income are located in Chisinau municipality, which accounts for about 65% of the total number of organizations that received such transfers (or 329 out of 504 beneficiaries).

In 2019, through this (budgetary) funding mechanism, the Public Association of Veterans and Pensioners of the Republic of Moldova's Ministry of Internal Affairs received the largest amount, MDL 1,776,704.38, which represents 23% of the total amount.

According to data provided by the State Tax Service, in 2019, out of a total of 13,518 nonprofit organizations, only 5,592 submitted financial activity reports showing profits/losses, as follows:

Amount	1 – 99,999 MDL	100.000 - 499.999 MDL	500,000 – 1 mln MDL	1 – 4 mln MDL	5 – 9 mln MDL	10 – 29 mln MDL	30 – 49 mln MDL	Total NO
Profit	381	74	15	11	-	-	-	481
'0' Profit	-	-	-	-	-	-	-	4770
Losses	290	36	6	3	4	1	1	341
Total	671	110	21	14	4	1	1	5592

A large part of the nonprofit organizations, in principle, did not comply with tax legislation. A substantial number of nonprofit organizations had no financial activities, but submitted tax reports without indicating any financial and tax activity data. Another category of nonprofit organizations are inactive or have not passed the re-registration procedure. It should be mentioned that, in each reference year, around 5,000 nonprofit organizations that submitted tax reports reported insignificant financial activity.

Nonprofit organizations that do not submit reports are inactive. According to Chapter 4 of Title V (Taxpayers' Record Keeping) of the Tax Code of the Republic of Moldova, the State Tax Service annually evaluates and determines inactive nonprofit organizations and then submits the list to the Public Services Agency for deregistration. In 2019, 100 nonprofit organizations were deregistered. Others are therefore to be deregistered or controlled depending on the outcome of the risk assessment.

According to State Tax Service data, by May 2020, 5,592 nonprofit organizations submitted financial reports for 2019 (form NGO-17), of which 4,770 reported a '0' balance (the entries in the account equal the exits from the account, representing the '0' value), another 341 nonprofit organizations reported losses, and 481 nonprofit organizations reported profits from their activities. The following table shows the financial situation of nonprofit organizations by category:

Type	Losses		Profit		'0' Balance	Total
	Number	Amount	Number	Amount		
Non-Governmental Organizations	280	-81,062,724.74	371	40,868,360.80	3796	4447
Foundations	9	-1,113,437.95	13	1,445,154.58	113	135
Philanthropic organizations	2	-845.00	-	-	13	15
Religious cults, socio-cultural organizations	9	-314 262,44	28	4 798 869,19	504	541
Political Parties	2	-54 964,90	5	881 976,07	13	20
Periodicals, News agencies	6	-468 149,58	7	396 428,20	23	36
Other organizations (unions, associations, Trade Unions and professional organizations, etc.)	33	-19 282 317,29	57	10 339 381,06	308	398
Total	341	-102 296 701,90	481	58 730 169,90	4770	5592

It is expected that the Republic of Moldova's funding sources would remain limited. At the same time, despite resource constraints, efforts have been made in recent years and still are being made today to increase state support for the voluntary sector in achieving mutually beneficial interests (for the state, the voluntary sector, and society) by developing programs and projects at central and local levels.

Monitoring of the nonprofit organizations sector

The National Risk Assessment carried out in 2017 did not specifically approach the risk of using the nonprofit organizations sector to finance terrorism. However, the concerned sector was the object of a monitoring process carried out by governmental institutions, in accordance with the field of activity. Governmental institutions acknowledge the threats and risks that nonprofit organizations may present at the terrorist financing level and therefore plan their supervision and control activities in accordance with the identified risks and threats.

In the context of the 2017 National Risk Assessment, the terrorism risk in the Republic of Moldova was assessed as low level. The terrorist financing risk is evaluated in the context and in accordance with the terrorism risk and is also considered low level. In the 2017-2020 reference period, the risks in the nonprofit organizations sector did not change compared with the previous periods. At the same time, no cases of using nonprofit organizations for financing terrorism were recorded.

Given the total number of nonprofit organizations registered as of 01.01.2020 – 13850, only 5592 have financial activity. Nonetheless, according to the completed assessments, the number of organizations which may be used to finance terrorism is very low. This is also confirmed by the total lack of cases of terrorism and terrorist financing in the period being assessed.

Monitoring nonprofit organizations is a complex activity carried out on several levels by different public authorities and institutions, each in their own areas of competence.

1. In the context of the central public administration reform started in 2017, the Ministry of Justice lost most of its powers related to registering nonprofit organizations, except the power to develop and promote policies for this sector.

At the same time, the ministry retained the power to issue a written warning to the management of the organization if there is a breach of law and, in case of non-compliance, to ask in court the suspension of activity. This way, the Ministry of Justice monitors the activity of nonprofit organizations in terms of compliance with the legislation in force.

2. Public Services Agency – is responsible for registering/deregistering nonprofit organizations.

3. State Tax Service – monitors the economic and financial activity of nonprofit organizations. Verifies financing sources and the way funds are spent for the purposes stated in the statute, in relation to fiscal/fiscal fraud matters. The main responsibility of the tax authority is to control compliance with tax legislation, the correct calculation, full and timely payment to the budget of tax liabilities.

4. Prosecutor's Office – monitors the activity of nonprofit organizations from the point of view of compliance with the limits of the legislation in force and, where appropriate, determines their illegal, including extremist and/or terrorist nature.

5. Customs Service – ensures the collection and execution of mandatory tax payments at border crossings, as well as those for warehousing goods under a customs procedure, in accordance with the Customs Code, the Tax Code and other regulatory documents.

6. OPFML – receives, registers, analyzes, processes and forwards to the competent authorities information on activities and transaction potentially related to terrorist financing presented by the reporting entities, as well as any other relevant information. According to Article 14 of Law No 308/2017, in case a notification is received from the Public Services Agency on the identification of a reasonable suspicion regarding the affiliation of the founder, managing director or beneficial owner of the nonprofit organization with terrorist entities, OPFML is responsible for taking the measures corresponding to the mandate defined in Article 34 of the abovementioned law.

7. Security and Intelligence Service of the Republic of Moldova – in the general context of the identification of terrorist activity, carries out actions to detect

and prevent the factors and elements which can lead to terrorism and/or terrorist financing.

The Security and Intelligence Service has a specialized subunit (Counter-Terrorism Centre), which has the status of national authority in the field of preventing and combating terrorism. In this context, general investigative actions in terrorism cases are inextricably complemented by the investigation of terrorist financing issues. Thus, the monitoring of vulnerable environments has been prioritized in order to detect and prevent elements that may emerge in any form in terrorist activities or logistical and terrorist financing activities, including the involvement of nonprofit organizations.

In this context, the Security and Intelligence Service constantly carries out assessments of the threats and risks that could lead to terrorist financing. In the nonprofit organizations sector a focused analysis is carried out with a special focus on the risks of these organizations being exposed and misused in terrorist financing.

Types of nonprofit organizations that are at risk of being used for terrorist financing due to their specific characteristics or activities are more likely to be misused in terrorist financing

Thus, as a result of the Security and Intelligence Service's activities in the context of preventing and combating terrorism and terrorist financing, it has become necessary to develop a set of tools that will allow the identification of nonprofit organizations that are at risk of being used for terrorist financing. In this context, a set of indicators has been developed, the use of which allows to identify nonprofit organizations that could potentially be used in the financing of terrorism and which, therefore, represent a reference point in carrying out the analysis outlined. At the same time, these indicators support a risk-based approach adopted by both the Security and Intelligence Service and national authorities, with the ultimate goal of identifying and/or mitigating suspicious activities that could potentially be linked to terrorist financing.

The formulation and application of these criteria allows for the identification of subcategories of nonprofit organizations that are more prone to being used for terrorist financing due to particular characteristics. Given the considerable number of organizations currently registered, this allows a specific focus on suspicious activities carried out by nonprofit organizations that are considered vulnerable.

International studies and best practices in this area, related to the FATF Methodology, identify some specific characteristics and activities that indicate an increased likelihood of exposure to terrorist financing risks for some categories of nonprofit organizations. To this end, the following risk criteria have been established:

- activities of religious nonprofit organizations are based on the provision of services (such as social services, education, health, religious education and other social services related to religious activities);
- financial activities are generally carried out using cash;
- public donations as well as membership fees are the main sources of income;
- provides support to a particular ethnicity or religion;
- financial flows come from countries with a higher risk of terrorism and/or terrorist financing;
- nonprofit organizations are local subdivisions of organizations located in countries at high risk of terrorism and/or terrorist financing.

These risk characteristics are useful as a first filter to detect high-risk phenomena in the process of monitoring the activities of nonprofit organizations.

In order to determine the types of nonprofit organizations that may be used for terrorist financing (under the FATF definition), the following data are analyzed and integrated into the assessment process:

- profiles of nonprofit organizations (type of activity, policies, messages, programs promoted, target groups, area of activity), the basic types being religious/spiritual development, ethnic and charitable organizations;
- characteristics of managers, founders, members;
- financial transactions with individuals/legal entities included on the UN Sanctions List;
- funding sources, including geographical area, states, and regions, as well as their status, source organizations, individuals, and their profiles;
- destination of expenditure/payments, and beneficiaries' profile/interests;
- bank accounts, their number, and the transfer methods used;
- nonprofit organizations'bank deposits, investments and (dubious) acquisitions;
- frequency and/or amounts of cash transactions;
- dubious e-money transactions;
- the dynamics of financial transactions and the 'discrepancy' between them and the claimed activity, or the lack of information on projects undertaken;
- unclear relationships and/or transactions with external partners and sector entities;
- the involvement of nonprofit organizations in complex financial circuits, with cyclic/repeated transfers, and participation of off-shore companies, especially from jurisdictions that do not cooperate with law enforcement;
- persons holding concurrent positions in nonprofit organizations and entities with suspicious financial activity;
- ineffective internal control in nonprofit organizations;
- suspicious lack of small donors;

- lending that is unjustifiable in terms of status and reported sources of coverage.

Based on these aspects, a number of indicators were identified to be used in the monitoring process. The presence of more than one indicator indicates a greater likelihood of involvement in suspicious activities with potential terrorist financing, money laundering or other related criminal activities.

Thus, a number of terrorist financing risk indicators particular to nonprofit organizations have been identified in the context of the study and are to be applied and analyzed in cases where terrorist financing is suspected, as follows:

- The persons involved in the transfers (the person who made the transfer, the person who received the transfer, the beneficiaries of the accounts) come from countries with a high risk of terrorism or countries supporting international terrorist organizations;
- The nonprofit organization transfers funds, using all possible means, to numerous entities (individuals or legal entities) in countries at high risk of terrorism;
- Receiving or transmitting funds from/to an international nonprofit organization located in a country at high risk of terrorism;
- Vague justification or lack of documentation when making transfers to high-risk locations or dubious entities;
- National or international transactions with nonprofit organizations whose names contain terms associated with violent extremism or other radical ideologies, such as ‘jihad’ or ‘mujaheed/mujahideen’, etc;
- Requesting donations through online platforms and social media for stated purposes that do not correspond to the field of activity indicated in the organization's status;
- Limited or no staff of the nonprofit organization, which is not in line with its financial activities;
- Complex banking schemes used by nonprofit organizations to conduct transactions and receive funds, especially from abroad;
- Significant increase in the nonprofit organization's or its founders' assets and accounts;
- Existing primary intelligence regarding dubious activities carried out by nonprofit organizations;

In order to identify the types of nonprofit organizations prone to being used in terrorist financing, open sources of information were used, as well as the line of cooperation and information exchange at national level between competent authorities in the field, financial institutions, as well as at international level, especially with specialized organizations in the field.

Based on revenue volume for the previous reporting period, 100 nonprofit organizations with the highest revenues were identified, and an analysis of this

sector's terrorist financing risks was completed. It should be noted that the activities of the selected nonprofit organizations are very diverse, as follows:

- Religious cult – 19
- Human rights defense, consultancy – 14
- Education – 12
- Political parties – 5
- Sports – 4
- Other areas – 46

Thus, the OPFML carried out the analysis of the information received under Article 11 of Law No 308/2017, from reporting entities on the transactions carried out by selected nonprofit organizations. As a result, out of a total of 18,430 transactions submitted to the OPFML, the following transactions were identified as:

- Cash transactions – 9,400
- Limited/cumulative transactions (MDL 500,000) – 6,858
- Suspicious transactions – 2171

It should be noted that out of a total of 2,171 suspicious transactions reported by nonprofit organizations, 1,045 transactions were reported to the OPFML with suspicion of transactions with the Transnistrian region. These transfers were made for various services provided, charitable acts, player registration (in the case of athletes). The remaining transactions were qualified as suspicious according to other criteria on suspicion:

- purchases/sales of large amounts of foreign currency
- transactions with high-risk countries
- unusual transactions

During the reference period, reporting entities detected suspicious transactions in the activity of nonprofit organizations, which were reported for terrorist financing verification. As a result of the financial investigations carried out, regarding the source and destination of the money, no transactions with signs of suspicion of terrorist financing were identified, and the cases examined had no link to terrorist financing. The obvious lack of transactions in reporting entities' records that are likely to be terrorist financing reconfirms the low level of terrorist financing risk at national level.

The nature of the threats posed by terrorist organizations to nonprofit organizations prone to being used in terrorist financing

In determining the nature of the threats posed by terrorist organizations to nonprofit organizations, the Security and Intelligence Service conducts a risk-based assessment of the cases under investigation in terms of transfers to high-risk countries, connections with organized crime, and promotion of extremist,

fundamentalist-religious, hate, intolerance, discrimination, and other destabilizing messages by nonprofit organizations.

As a result of the study carried out and the implementation of these risk criteria a subset of organizations with a potential risk of being used for terrorist financing has been identified. Thus, it has been determined that religious nonprofit organizations are at a higher potential risk of being used for terrorist financing. Predominantly, organizations with a connection to the Muslim religion and culture stand out in this category. It should be mentioned that a number of non-governmental organizations and public associations carry out activities to promote Islamic culture and religion in the Republic of Moldova, including in improvised places of worship.

According to data presented by the Public Services Agency and corroborated with information held by the Security and Intelligence Service, the number of active Islamic religious nonprofit organizations is very small and does not exceed 10 organizations. The figure reported is insignificant when compared to the overall number of nonprofit organizations, and the financial actions recorded during the evaluation period are relatively low. Nonetheless, the financial activities carried out by this category of nonprofit organizations are continuously monitored by the relevant government institutions.

In this context, a mechanism has been put in place to verify Islamic nonprofit organizations through official channels and competent state institutions. Inter-institutional cooperation agreements have been signed in order to verify the compliance of nonprofit organizations with legal and statutory provisions. The measure is intended to address the need to build collaborative relationships in order to improve the effectiveness of bilateral actions linked to the objectives of mutually beneficial information exchange.

In the process of registration and direct activity of the nonprofit organization, information on the founder, managing director, or beneficial owner of the nonprofit organization is verified via joint working groups and cooperation formats with the Public Services Agency, the State Tax Service, and the Ministry of Justice. So far, the nonprofit organizations' banking transaction history has not confirmed suspicions of links to terrorist financing. However, the assessments revealed that Islamic nonprofit organizations in the Republic of Moldova carry out their financial activities predominantly with cash, with bank transactions being rarely used. This trend raises some concerns, as it falls within the risk factors specific to nonprofit organizations.

At the same time, some ways that can be used by nonprofit organizations for their funding have been identified:

a) direct and indirect public funding – tax benefits/exemptions, subsidies, grants, budget subsidies, subsidies for various public benefit purposes, social service contracts, and membership fees of nonprofit associations;

b) private philanthropy – tax benefits for donors, including by deducting donations, designating or directing a percentage of taxpayers' tax revenues;

c) income generation – creating a favorable climate for economic activities, tax benefits from social entrepreneurship activities.

During the reference period, 78 nonprofit organizations were targeted while monitoring all dimensions of national security, with a parallel focus on criteria and types of commercial organizations that could be used to finance terrorism. On a more detailed level, through direct and indirect indicators, the in-depth financial investigations examined the operation of 64 nonprofit organizations on all areas of competence, including the prevention of terrorist financing.

As a result of the investigations, no indicators of terrorist financing associated with nonprofit organizations have been identified. It should be noted that, in all the cases investigated, the money managed by the nonprofit organizations was found to be used for the purposes set out in their status (educational, charitable, human rights defense, promotion of freedom of expression and protection of the media, including investigative journalism centers).

Despite the low risk of terrorist financing, the analysis of the nonprofit sector's current situation in terms of risk factors and indicators reveals vulnerabilities, the exploitation of which increases the likelihood of nonprofit organizations being used to finance terrorism.

- The use of cash

The nonprofit organizations sector is inherently characterized by a concentration of cash. In many cases, at the fundraising and distribution stages, cash is the primary or only resource available. The use of cash is considered to have a high level of vulnerability in terms of terrorist financing. Due to the specific nature of many nonprofit organizations' activities, transparency and accountability of cash transactions can be problematic.

- Fundraising

Public donations (often in cash) are one of the country's primary sources of financing, followed by membership fees and government or international grants. The latter can provide the competent authorities with some visibility over the funds of nonprofit organizations. In contrast, the low visibility and considerable anonymity of public donations fuels the risk of terrorist financing abuse.

- Awareness of the risk of terrorist financing

There is a need to raise awareness among nonprofit organizations of the risk of their use in terrorist financing. Larger nonprofit organizations are more stable and generally have a better understanding of risks, being able to use more effective risk mitigation mechanisms. The use of mechanisms to counter the risk of terrorist financing largely depends on the nonprofit organization's awareness of the risk and its ability to implement appropriate control and verification measures.

- Due diligence and probity obligation

Most nonprofit organizations in Moldova practice a certain level of due diligence that employees and volunteers should get. However, few nonprofit organizations carry out checks or controls to identify criminal conduct or an

individual's connection to terrorist or violent extremist activity. Appropriate due diligence checks can be costly and resource-consuming. The level of due diligence applied towards employees and volunteers may depend on the nature of the individual's role within the nonprofit organization. Senior staff and those with more financial responsibilities are generally subject to more stringent due diligence checks or controls. Few nonprofit organizations apply the same level of due diligence towards contractors, partners and beneficiaries.

- Supervision and compliance

Compliance by nonprofit organizations with the regulations of the legislation in force is mandatory. Nonprofit organizations that do not comply with or attempt to circumvent supervision pose risks in terms of terrorist financing. National authorities should consider measures to identify nonprofit organizations that are in breach of regulations in force (e.g. through financial information and activities) and assess the risk posed by these nonprofit organizations. Authorities should also consider measures to encourage transparency and legal compliance within organizations, as well as promoting certain benefits they provide (tax concessions, access to grants and public legitimacy).

The analysis was based on the flow of information received from government institutions that have contacts with the area of nonprofit organizations. It was therefore discovered that the nonprofit organization sector in the Republic of Moldova is diverse, both in terms of the specific activities carried out by nonprofit organizations and in terms of their geographic distribution.

By analyzing the specifics of the activity carried out, in conjunction with the criteria and indicators of terrorist financing risk, it has been determined that religious nonprofit organizations are at a higher potential risk of being used for terrorist financing. Predominantly, organizations with a connection to the Muslim religion and culture stand out in this category. Despite the overall high number of nonprofit organizations registered in the Republic of Moldova during the evaluation period, there were no identified cases of the use of the nonprofit organizations sector for terrorist financing, which is consistent with the country's low terrorist risk profile. The activities carried out by government institutions responsible for this sector also are consistent with the risk of terrorist financing in the country.

At the same time, taking into account the statistics and quantitative data presented, the real number of financially active nonprofit organizations cannot be accurately determined. According to estimates, the number of active nonprofit organizations is significantly lower than the number of officially registered nonprofit organizations. Thus, despite the fact that the number of nonprofit organizations that are currently officially registered in the Republic of Moldova is quite high (13,850), there is a false impression that they are all active and carry out financial activities. In this context, there is a risk of overestimating the risk and the tasks of the authorities responsible for preventing and combating terrorist financing.

Although the detected risks and vulnerabilities do not pose a substantial threat of being used for the financing of terrorism or other terrorism-related activities, some harmonization activities are needed to meet the current period's requests and needs.

Among the deficiencies identified, the following are currently vulnerabilities:

- significant use of cash in the carrying out of financial activities by nonprofit;
- lack of appropriate financial and/or accounting records;
- vague accounting of expenditures in accordance with legal provisions;
- inappropriate accounting of donations and membership fees as significant sources of income for nonprofit organizations, etc.;
- lack of robust control by the responsible authorities of the financial activity of nonprofit organizations;
- lack of real data on the number of active nonprofit organizations and their financial activity.

In the context of the study carried out, the following recommendations are considered appropriate and necessary:

- Promote the risk-based approach and improve the legal framework for the sector of nonprofit organizations to prevent and combat money laundering and terrorist financing;

- Limit the use of cash transactions in nonprofit organizations;

- Enhance the records on financial activities carried out by nonprofit organizations;

- Increase the financial transparency of nonprofit organizations and strengthen state supervision in this respect;

- Increase the transparency of data on beneficial owners of nonprofit organizations;

- Promote a culture of security and increase the involvement of the sector of nonprofit organizations in prevention policies to prevent and combat money laundering and terrorist financing.

4.3. Regulatory framework

The Republic of Moldova condemns terrorism in all of its forms and shares the international community’s position that terrorism is one of the greatest threats to the security of states.

During the reference period, the main negative trend in most countries of the world was the phenomenon of so-called foreign terrorist fighters. Foreign terrorist fighters pose a particular danger because their presence increases the intensity and duration of conflicts, but especially because of the threat they pose to the security of states of origin or transit.

The regulations concerning this category of persons stem from the United Nations Security Council Resolution 2178 (2014), which defines the concept of

foreign terrorist fighters. Moreover, Resolution 2178 provides that Member States should ensure that the acts of nationals or residents of those countries who leave their territory and travel to other countries for terrorist purposes are prosecuted and sanctioned proportionately to the seriousness of the offense in their domestic laws and regulations. Similar regulations regarding foreign fighters are also reflected in the Additional Protocol to the Council of Europe Convention on the Prevention of Terrorism, drawn up in Riga on October 22, 2015 and ratified by the Republic of Moldova by Law No 274/2016[22].

In order to fulfil the commitments undertaken and international standards in the field of preventing and combating money laundering and terrorist financing, as well as to harmonize the national regulatory framework, several draft regulatory documents were approved during the reference period, including amendments and supplements to the Criminal Code of the Republic of Moldova criminalizing the acts of traveling abroad for terrorist purposes, organizing or facilitating travel abroad for terrorist purposes, receiving training for terrorist purposes, Law No 120/2017[23] on preventing and combating terrorism and Law No 308/2017. The provisions in question improve the mechanism of response and cooperation between the competent authorities in the fight against terrorism and terrorist financing.

Procedural issues

In accordance with the legislation in force, in order to ensure the security of individuals, the society and the State, the Republic of Moldova pursues on its territory persons involved in terrorist activities, including in cases where these activities have been planned or carried out outside its territory, but have brought harm to the country, as well as in other cases provided for by international treaties to which the Republic of Moldova is a party.

The investigation, prosecution and trial of criminal cases relating to terrorist crimes and/or terrorist financing is carried out in accordance with the general procedure, without any special provisions. In this regard, the legislation in force, in particular, the Code of Criminal Procedure [24]and Law No 59/2012[25] on Special Investigative Activity, makes no distinction between the procedural rules applicable to the commission of terrorist crimes and those applicable to other serious, particularly serious and exceptionally serious crimes.

No cases of terrorist acts were recorded in the Republic of Moldova during the reference period. However, in 2017 criminal proceedings were initiated on the fact of committing the crime of Training for Purposes of Terrorism provided for in Article 279[1] (1) of the Criminal Code of the Republic of Moldova. Procedural

[22] https://www.legis.md/cautare/getResults?doc_id=96995&lang=ro
[23] https://www.legis.md/cautare/getResults?doc_id=110295&lang=ro
[24] https://www.legis.md/cautare/getResults?doc_id=113967&lang=ro
[25] https://www.legis.md/cautare/getResults?doc_id=110235&lang=ro

actions and measures of jurisdiction in the criminal case are carried out by the Security and Intelligence Service jointly with the Prosecutor's Office for Combating Organized Crime and Special Cases.

Special regulatory documents

On September 21, 2017, the Parliament of the Republic of Moldova adopted Law No 120 on preventing and combating terrorism. This law sets the regulatory and organizational framework for preventing and combating terrorism, determines the coordination of measures taken by the authorities responsible for preventing and combating terrorism, as well as the rights, responsibilities and guarantees of persons who participate directly in counter-terrorism acts or have suffered as a result of a terrorist act.

UN Security Council Resolution 2178 (2014) was the starting point for the transposition into national legislation of some of the recommendations developed within the UN. Thus, in order to implement Resolution 2178, a new concept of airline passenger screening has been introduced. These passenger screening actions are carried out to implement counter-terrorism security measures in order to detect attempts by persons affiliated with Al-Qaeda, Taliban Movement, 'ISIL' (Da'esh) to leave, enter or transit our country. In addition, Directive (EU) 2016/681[26] of the European Parliament and of the Council of 27 April 2016 on the use of passenger name record (PNR) data for the prevention, detection, investigation and prosecution of terrorist offences and serious crime is implemented.

At the same time, Law 120/2017 also provides for the possibility of legal entities being held liable for terrorist activities. Thus, in the context of the fight against terrorism and terrorist financing, the law contains special regulations on: the liability of a public or religious association or other organization for carrying out terrorist activity; the liability of the mass media for disseminating material that calls for or justifies the carrying out of terrorist activity; the inadmissibility of using electronic communication networks to carry out terrorist activity; general provisions on the implementation of financial sanctions related to terrorist activity.

Special investigation measures

The management of extremist-terrorist risks in general, and especially terrorist financing, as a cause and condition, which lead to terrorist activity, rely on the principle of a risk-based approach combined with the forces, means and methods of the competent authorities in this area.

The combating of the terrorist activity is carried out on two main levels:

[26] https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=uriserv:OJ.L_.2016.119.01.0132.01.RON

1. Prevention and identification of terrorist activity – is ensured by a set of information, counter-information, socio-economic, legal, security and protection, education and other measures, carried out by the authorities involved in preventing and combating terrorism.

2. Detection and combating of terrorist activity – is ensured by a set of informative and counter-informative actions, collection, analysis, processing and capitalization of data on factors that may endanger the counter terrorism security.

In this context, the central role of special investigation measures is clearly highlighted, as they have a direct influence on the activity of preventing and combating terrorism and terrorist financing. The national legislation does not contain any special provisions on the type and procedure of special measures in specific investigations, which may be applied in the case of terrorist offences or the terrorist financing. Thus, the special investigation measures necessary in case of suspicion regarding the preparation or committing of a terrorist offences shall be carried out according to the procedure regulated by the Criminal Code and Law No 59/2012 on Special Investigation Activity.

Given that the special investigation activity is one of the basic tools for carrying out the preventing and combating of terrorism and terrorist financing, it is perceived in all its complexity. In this regard, the operative activity implies, in addition to special investigation measures, a set of socio-economic, legal, planning, protection and prevention measures, aimed at a single goal. Thus, the complex approach of the operational activity as a central piece of counterintelligence, starts from the very specifics of terrorist activity, as well as the complexity of terrorist financing procedures.

In the context of the prevention and combating of terrorist activity during the reference period, the operational activity has ceased to be exclusively a special investigation activity, being rather a system of complex measures integrated into a single action mechanism. Although the main emphasis was placed on the gathering and collection of information of interest, its efficient use was possible by ensuring a complex approach, comprising the need to assess the information and the purpose of its practical use.

The collection and analysis of sensitive information from the interest environment, ensure counter-terrorism protection in the critical infrastructure, planning and organization of special measures and tactical applications, legal coverage and legalization of taken measures, interinstitutional and international cooperation, represent on the whole the range of objectives of the operative activity carried out during the reference period.

Prevention and combating of terrorist financing

Law No 308/2017 governs the preventing and combating of terrorist financing. In this context, an important aspect constitutes the implementation of

international financial sanctions related to terrorist activity and the proliferation of weapons of mass destruction.

Thus, in order to restrict terrorists' access to goods and assets used for terrorist financing, the law provides that reporting entities shall immediately apply restrictive measures to goods, including those obtained from or generated by goods owned or held or controlled, directly or indirectly, by persons, groups and entities included in the list of persons, groups and entities involved in terrorist activities, as well as by legal entities belonging or controlled, directly or indirectly, by such persons, groups and entities. At the same time, the reporting entities shall refrain from carrying out activities and transactions in favor or benefit, directly or indirectly, of the persons, groups and entities included in the aforementioned list as well as of legal entities belonging or controlled, directly or indirectly, by such persons, groups and entities.

The reporting entities shall not establish business relations with the persons, groups or entities involved in terrorist activities and proliferation of weapons of mass destruction included in the aforementioned list. The reporting entities shall inform immediately OPFML of the refusal to establish business relations with them, within a maximum of 24 hours, presenting all the data held on this case. The restrictive measures shall apply immediately and shall stay for an indefinite period. They shall be lifted only on the date indicated in the decision to lift the restrictive measure. The reporting entities shall provide immediately information to OPFML on the application of the restrictive measure, within 24 hours of the application of the said restrictive measure, which in turn shall inform within 24 hours the Security and Intelligence Service and the Ministry of Foreign Affairs and European Integration in order to transmit the information to the competent bodies and authorities of the United Nations and the European Union.

Note that during the reference period there were no cases of application of restrictive measures, as well as cases/attempts to carry out transactions involving persons, groups and entities engaged in terrorist activities or the proliferation of weapons of mass destruction.

Terrorist financing in the context of the general terrorism risk at the national level

During the reference period (2017 - 2020), within operational process and from cooperation institutions at national and external level, the Security and Intelligence Service received information on transactions and economic activities revealing suspicions of terrorist financing. The outcome of the financial audits and investigations confirmed that the examined situations implied transfers for the support/expenditures/planned procurement of persons, investments in business development and other good intentions, or cases of financial crime not associated with terrorist financing. The suspicions on affiliation of persons to terrorist organizations in the investigated cases have not been confirmed.

Investigations during the reporting period confirmed that the Republic of Moldova was not a preferred area for use and/or directing funds or economic/financial resources to fund terrorist organizations. Given the low risk of terrorism at the national level, terrorist financing is an area of increased vigilance.

Generally, the Security and Intelligence Service carries out the prevention of terrorism by combating its financing. The Security and Intelligence Service participates in the fight against international terrorism by combating the terrorist financing and the proliferation of weapons of mass destruction, which have become challenges in the context of globalization, border vulnerabilities, increased migration, development and diversification of information technologies, payment systems and transportation.

As a result of Security and Intelligence Service activities in vulnerable areas, scored on risk analysis, no financial transactions and/or economic operations associated with the financing or material support of terrorism were found during 2017-2020.

The collection of information, investigations/analyzes carried out in order to identify terrorist financing focused on four types of resources that can be used directly or through exchange by potential exponents of terrorist activity, in relation to other entities or persons, to generate profits for the potential terrorist financing: financial resources, material goods, services, information.

So, the primary objectives were and are to limit the financial and material resources of terrorists, limiting the access to explosive, chemical, biological, radiological and nuclear substances and devices, information, expertise in their use, identifying other services associated with logistics, transport and benefits from financial and material resources or material goods intended for the financial and indirect material support of terrorism.

Data on suspicious transactions of terrorist financing recorded during 2017 - 2020

During the reference period, it was established, while checking the suspicious transactions identified by the Security and Intelligence Service, but also those received as the result of financial investigations and verification of money origin and destination from reporting entities and OPFML on terrorist financing, that the cases had no attribution to the financing of terrorism, thus reconfirming the low level of risk.

I. At the beginning of 2017 and earlier in 2013-2016, the financial transfers, classified as suspicious, of a Syrian citizen were verified and monitored, in order to detect possible connections with terrorist financing.

At the end of 2016, the citizen concerned received on his account in a commercial bank a considerable amount (MDL 2,590,000) from the company he founded and managed, as a partial repayment of the loan, the money being withdrawn in cash.

Previously, the loan was transferred to the company by the reference person, after the borrowed funds (USD 480,000) were initially (in 2013) deposited in an account, with interest, of a Moldovan bank, and later (2016), they were withdrawn and deposited in another bank.

In this context, transpired indications of the dubious origin of the money, based on the related documents (at the initial deposit of the money, in 2013, the source of the money was not indicated in the documents).

As a result of record databases and UN lists checks, monitoring and questioning of the foreign citizen, it was established that said person holds shares in four factories of good faith (medicines production), in Syria, and the money comes from the dividends, part of which was legally integrated into the economy of the Republic of Moldova.

II. During the reference period, was checked the origin and destination of a EUR 2400 transfer from the Russian Federation to the Republic of Moldova, of a foreign citizen, whose name was preliminarily identified in the 'List of persons, entities and other groups associated with the Taliban'.

As a result of the taken measures, including the questioning of the transfer beneficiary, it was established that the latter had exported agricultural production (apples) to the Russian Federation, the transferred amount representing the payment for the delivery of the goods. At the same time, the exporter of the financial resources turned out to be a market trader from Russia, and his identification data coincided in first and last name, but not in date of birth with the person included in the UN list as an associate of Taliban terrorist organization.

No elements of membership in extremist-terrorist groups or radical movements were found in the case of mentioned persons.

At the same time, the Security and Intelligence Service based on the obtained information, identified some suspicious cases in terms of possible terrorist financing, which were subjected to additional checks.

In 2018, were obtained data during operational process that revealed suspicious financial transactions (transfers to/from the Republic of Moldova by 'Qatar Islamic Bank') and the economic activities of a person of Iraqi origin, holder of The United Kingdom of Great Britain and Northern Iceland citizenship.

The suspicions were raised in the context of the risk to use the Republic of Moldova in terrorist-related transactions, deriving from the fact that as of 2003 military conflict in Iraq, some groups of people, including Iraqi intelligence officers, became involved in terrorist-related activities against American, British and Israeli targets, including from states supporting the Iraqi war allies.

As a result of Security and Intelligence Service investigations, carried out at national level and with the support of the intelligence services of other states, it was established that the mentioned transactions were exclusively for entrepreneurial

purposes. The examined person was found to be engaged in economic and commercial activities in several states, including in partnership with a government institution of a European state, is not a member of a terrorist group and was not/is not an exponent of the former Iraqi regime (Ba'ath Party).

As a relevant reason for not being involved in supporting the terrorist actions of the former Iraqi regime, we note that some members of the Iraqi family concerned were assassinated for political reasons by the former Iraqi regime, most of the family members being forced to flee to European countries.

4.4. Institutional framework

Considering the recrudescence of terrorist risks and threats at the regional level, as well as the asymmetric nature of terrorist organizations' tactics, there appeared a pressing need to review the management of forces and means involved in preventing and combating terrorism, integrated into a single and coherent combat system.

In this respect, Law No 120/2017 allowed the revision of the system of competent authorities in the area of preventing and combating terrorism, their duties and the mechanism of inter-institutional interaction in the context of counteracting the extremist-terrorist risks.

At the central management level, the institutional framework in the area of preventing and combating terrorism is provided by:

- The President of the Parliament of the Republic of Moldova – coordinates the prevention and combating of terrorist activity.

- The Government – is the main authority responsible for organizing the prevention and combating of terrorist activity, as well as providing it with the necessary forces, means and resources.

-The Security and Intelligence Service of the Republic of Moldova – conducts directly the activity of preventing and combating terrorism.

According to Article 7 of Law No 120/2017, other competent authorities in the area of prevention and combating of terrorist activity are:

1. General Prosecutor's Office
2. Ministry of Internal Affairs
3. Ministry of Defense
4. Public Services Agency
5. Ministry of Economy
6. Ministry of Foreign Affairs and European Integration
7. Ministry of Health, Labor and Social Protection
8. State Protection and Guard Service
9. Customs Service
10. National Agency for Regulation of Nuclear and Radiological Activities
11. National Penitentiary Administration

12. OPFML

The Security and Intelligence Service of the Republic of Moldova fights terrorism by preventing, detecting and terminating terrorist activities, including international ones, by conducting counter-terrorism operations. The Security and Intelligence Service contributes to ensuring the security of the institutions of the Republic of Moldova located in the territory of other states, and of its citizens employed in these institutions and family members thereof, collects data on international terrorist organizations, undertakes other specific measures to prevent and combat terrorism assigned by law under its jurisdiction.

The Counter-Terrorism Center operates within the Security and Intelligence Service, as a national authority in the area, encompassing all dimensions of preventing and combating terrorism, including terrorist financing.

At the same time, three other specialized subunits operate complementarily as a support in the prevention and combating of threats associated with predicate crimes on money laundering and terrorist financing:

1. on preventing and combating cross-border organized crime profile;
2. on ensuring economic security dimension;
3. on ensuring the constitutional regime, in preventing extremism.

Additionally, a central subdivision of analysis operates within the institution, which interacts and coordinates the area of risk analysis, tactically and strategically. The process of preventing and combating terrorism can be carried out efficiently and successfully only with professional forces and means, the activity of the responsible authorities being ensured qualitatively in terms of conferred tasks and responsibilities, as well as the possibilities for action and mobilization. In this context, the Security and Intelligence Service has signed collaboration agreements with competent institutions in preventing and combating terrorism and terrorist financing.

4.5. International legal assistance and extradition

International legal assistance in cases concerning crimes of terrorist nature is provided in accordance with the national legislation and the international treaties to which Moldova is a party, or other international obligations assumed by the Republic of Moldova.

The Council of Europe Convention on Prevention of Terrorism, adopted in Warsaw on 16.05.2005, the European Convention on Suppression of Terrorism and the Protocol amending the Convention, ratified by the Republic of Moldova in 2008, 1999 and 2004, respectively, and other international instruments in the area facilitates the process of extradition of persons who have committed terrorist crimes.

The international legal assistance in general, and extradition in particular, concerning cases of terrorist offenses or terrorist financing, is carried out in accordance with the general procedure. The relevant provisions are governed by the

Criminal Code of the Republic of Moldova (International Legal Assistance in Criminal Matters, which is divided into the following sections: request for rogatory commission, joint investigation teams, extradition, transfer of convicted persons and recognition of criminal sentences of foreign courts), as well as by Law No 371/2006[27]on International Legal Assistance in Criminal Matters.

During 2018-2020, the General Prosecutor's Office of the Republic of Moldova received three requests for international legal assistance in criminal matters related to committing a terrorist act, participation in a terrorist organization and mercenary activity.

At the same time, during the reference period, a request was received for the extradition of a person convicted of participating in a religious, fundamentalist organization or other category of prohibited organizations.

4.6. International cooperation

The Republic of Moldova believes that maintaining a state of conflict in various world countries, frozen conflicts, regions under partial or full control of extremist break away regimes fosters money laundering, illegal migration, trafficking in human beings, ammunition and drugs, which in their turn creates an enabling environment for international terrorism. Such threats to the security of our country, other countries in the Black Sea region, including countries neighboring the European Union, in terms of activating and broadening the influence area of international terrorist entities is a factor of high interest for the Republic of Moldova in the process of approving internal and external policies and strategies.

In order to prevent and fight terrorism and according to international treaties it is a party to, the Republic of Moldova cooperates with law enforcement bodies and foreign special services, as well as with international organizations active in this area. In line with the international treaties it is a party to, the Republic of Moldova may request other country’s support, if needed for hostage release actions. It can also participate in such actions on the territory of other state.

Cooperation within international, regional and subregional organizations is still a relevant method of joining efforts in fighting terrorism and exchanging best practices of strengthening institutional capacities. Considering the need to address the causes and conditions leading to terrorism proliferation, as well as those favoring terrorist financing, the Republic of Moldova reaffirmed its openness to align to measures adopted by international community. The United Nations Organization (in particular Security Council and its Counter-Terrorism Committee) Council of Europe, Organization for Cooperation and Security in Europe, Commonwealth of Independent States (Counter-Terrorism Center of the CIS) are the main cooperation platforms for RM, in particular with regards to the relevant regulatory framework

[27] https://www.legis.md/cautare/getResults?doc_id=110647&lang=ro

and best practices, exchange of information, policy documents and strategic planning, practical measures to strengthen the institutional capacities, rule of law and human rights protection in preventing and fighting terrorism.

Besides multilateral treaties, a series of bilateral agreements have been concluded with the governments of Romania, Ukraine, Turkey, Hungary, Italy, Latvia, Israel, Czech Republic, Poland, Bulgaria and other states.

In this context, the Security and Intelligence Service coordinates its activity in accordance with the international law, supporting the exchange of relevant best practices and international cooperation, as a vital tool in the activity of preventing and fighting terrorism.

The Security and Intelligence Service cooperates with European and global partner services, in order to prevent, identify and fight international terrorism and activities that can affect the national and regional security.

The exchange of information mainly involves operational and analytical information about suspects of terrorism activities and terrorist financing, as well as travelling abroad for terrorist purposes. The exchange of information has a significant role in the process of reviewing requests for visa or asylum. The Security and Intelligence Service also cooperates constantly with foreign partners in order to perform the needed proceedings and bring to justice persons involved in crimes with a terrorist nature, involved in terrorist activities or other illegal activities related to terrorism.

Movement of terrorist, illegal trafficking in ammunition and dual-use materials, and fraudulent use of travel documents is another priority category covered by the exchange of information both at the national level (General Inspectorate of Border Police, Customs Service, Bureau for Migration and Asylum, etc.), and as part of foreign partnerships.

Management of security risks in connection with extremist-terrorist dimension shows that the Republic of Moldova is not directly threatened by international terrorist groups, either as a target or as a territory used for planning and carrying out terrorist activities.

The main vulnerabilities and preconditions for insecurities are still generated by the flow or foreigners from risk areas (transit areas), possible intentions of representatives of Islamic extremist-terrorist movements to settle on the national territory, repatriation of Moldovan citizens located in the refugee camps from the conflict areas, in the proximity of the territory of action of international terrorist groups.

The measures taken and assessments made during the reference period do not show an increase in the overall level of terrorist threat at the national level. Terrorism prevention is planned and carried out with the main focus on addressing the causes and conditions enabling its proliferation, implicitly terrorist financing.

In spite of the low terrorism level at the national level, there is still a need to improve the security culture, in particular to raise awareness of terrorist risks within

the critical national infrastructure. At the same time, the results of counter-terrorism tests performed by the Security and Intelligence Service show the need for appropriate investments in order to recover the precarious economic situation and enhance the counter-terrorism protection of the strategic infrastructure.

No suspicious transactions of terrorist financing have been found during the reference period. The information about economic transactions and activities related to alleged possible involvement in terrorist financing, received as part of the operational process and from cooperation institutions at national and external level, were not confirmed.

Investigations during the reporting period confirmed that the Republic of Moldova was not a preferred area for use and/or directing funds or economic/financial resources to fund terrorist organizations.

During the reference period, a number of amendments and supplements were made to the Criminal Code of the Republic of Moldova criminalizing the acts of travelling abroad for terrorist purposes, organizing or facilitating travel abroad for terrorist purposes, as well as receiving training for terrorist purposes.

At the same time, note that since 2017 the national authorities have developed and promoted a number of regulatory documents in order to align the national law on prevention and combating of terrorism and terrorist financing to the latest developments and priorities generated by the security climate, to harmonize and adjust the existing regulatory framework to the relevant international standards and best practices.

Given the low risk of terrorism at the national level, terrorist financing remains a priority and area of increased vigilance. In this context, specific focus is placed on developing and strengthening the mechanisms of inter-institutional interaction and exchange of information (in particular, Security and Intelligence Service - OPFML - reporting entities and competent authorities).

5. National vulnerability to money laundering

5.1. Capacity of policies and strategies for preventing and fighting against money laundering

The 2013-2017 National Strategy for Preventing and Combating Money Laundering and Terrorist Financing and Action Plan were adopted by the Parliament of the Republic of Moldova by Law No 130/2013[28]. The main goal of this five-year Strategy is to identify and mitigate the vulnerabilities of financial-banking and nonbanking sectors to the risk of money laundering and terrorist financing by complying with the relevant international standards. The Action Plan is the tool implementing the Strategy. It was implemented by all participants in the national system for preventing and fighting money laundering and terrorist financing.

[28] https://www.legis.md/cautare/getResults?doc_id=22270&lang=ro

This Strategy established four strategic objectives, developed as a result of MONEYVAL assessment conducted during 2011–2012[29].

To achieve the set objectives, the Action Plan implementing the 2013–2017 Strategy included legislative, institutional and implementation measures.

Approval of Law No 308/2017 is one of the major achievements, which ensured compliance of the national law with EU Directive 2015/849[30] on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC and FATF Recommendations.

Law No 308/2017 amended the directives and guidelines for reporting entities and supervisory authorities in the area of preventing and fighting money laundering and terrorist financing. At the same time, the new law strengthened the mechanisms for preventing and combating money laundering and terrorist financing to ensure the State security, protecting the national financial-banking, nonbanking and freelancing systems, defending the legitimate rights and interests of individuals and legal entities. Lack of a transitory period for the implementation of this law makes the competent institutions vulnerable at the enforcement stage.

In addition, the following laws were passed in order to achieve the objectives of 2013–2017 Strategy:

- Law No 36/2016 on Postal Communications[31];
- Law No 69/2016 on the Organization of Notarial Work[32];
- Law No 1/2018 on Nonbank Financial Companies[33].

While implementing the 2013–2017 Strategy, the supervisory and law enforcement organizations developed and approved the secondary law to implement Law No 308/2017.

The trainings and workshops organized for reporting entities contributed significantly to capacity building in preventing and combating money laundering and terrorist financing.

Besides, Government Decision No 697/2015 on national evaluation of risks of money laundering and terrorist financing. The evaluation was completed on 14 May 2017 by Order of the National Anti-corruption Center Director No 40-R on the result of the national risk assessment.

Thus, on the basis of evaluation results, by its Decision No 791/2017, the Government approved the Action Plan to mitigate the risks of money laundering and terrorist financing for 2017–2019, which established the following objectives:

[29] https://rm.coe.int/report-on-fourth-assessment-visit-anti-money-laundering-and-combating-/1680716bd1
[30] https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=celex%3A32015L0849
[31] https://www.legis.md/cautare/getResults?doc_id=121211&lang=ro
[32] https://www.legis.md/cautare/getResults?doc_id=113127&lang=ro
[33] https://www.legis.md/cautare/getResults?doc_id=105391&lang=ro

1) improve the regulatory acts in force;
2) identify and reduce sectoral risks in the field;
3) undertake measures to identify the beneficial owner;
4) improve the supervision;
5) reduce cash transactions;
6) strengthen inter-institutional cooperation;
7) strengthen international cooperation;
8) provide technical assistance to law enforcement bodies, prosecutors and judges in the field of parallel financial investigations and recovery of illicit proceeds.

The overall aim and purpose of these objectives was to strengthen the domestic system for preventing and combating money laundering and terrorist financing, which is the national strategic policy in this area.

Though a series of positive legislative and institutional progresses were made in preventing and combating money laundering and terrorist financing, it is still necessary to strengthen the efforts to ensure a proper implementation of actions and cooperation of all responsible institutions.

During 1–12 October 2018, the Republic of Moldova, as a MONEYVAL member, was subjected to the Fifth Round Mutual Evaluation of the implementation of FATF 40 Recommendations. The Evaluation Report and the evaluators' recommendations was approved during the Plenary Session of the MONEYVAL Committee, which took place in July 2019.

In order to implement the recommendations made following the Fifth Round Evaluation carried out by the MONEYVAL Committee, as well as to remedy the shortcomings identified in this area, in particular in the part concerning appropriate legal framework, a new policy document was developed which will establish the priorities for the following period.

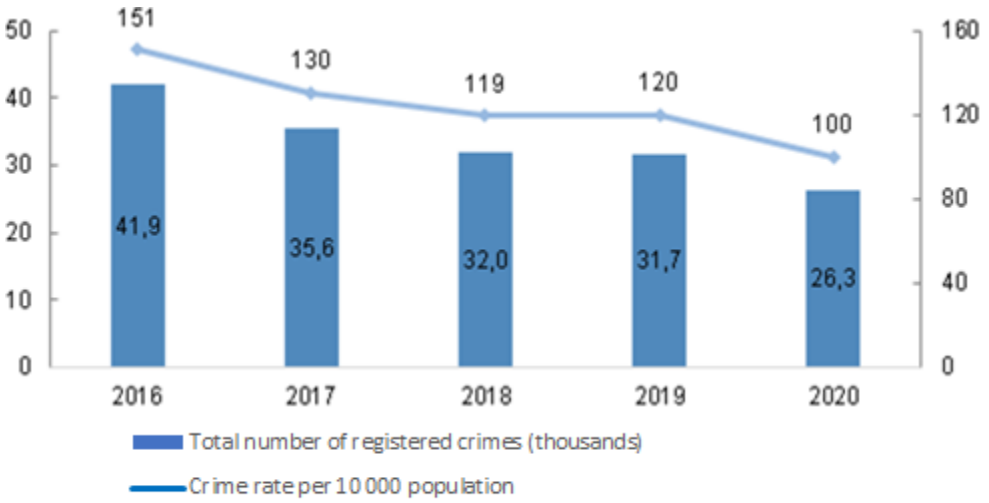
Thus, the Parliament of the Republic of Moldova, by Decision No 239/2020, considering the need to further develop and strengthen this sector, approved the National Strategy for Preventing and Fighting Money Laundering and Terrorist Financing and the Action Plan implementing it. This policy document was developed on the basis of MONEYVAL findings and recommendations, as well as on the basis of other recommendations for sector recovery that require increased attention by the national authorities.

5.2. Efficiency of money laundering regulation

Money laundering, as an element of crime, was criminalized by the Criminal Code of the Republic of Moldova of 24.03.1961 by Law No 1326/2002, which introduced Article 164/9. The crime element is also reflected in Article 243 of the Criminal Code of the Republic of Moldova of 18.04.2002, which entered into force on 12.06.2003. This article was subsequently amended by Law No 243/2007 (in force since 14.12.2007) and No 277/2008 (in force since 24.05.2009), transposing

the standards of UN Convention against Transnational Organized Crime (Palermo Convention of 2000) and UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention of 1988). A number of findings were formulated as a result of the assessment of the efficiency of money laundering regulation in the criminal law.

The Moldovan law applies the principle of universality of predicate crime and covers all categories of offences listed by FATF. Statistics show that in 2020, the crime rate constituted 100 crimes per 10 thousand inhabitants, compared with 120 crimes in 2019 and 130 crimes in 2017.



Source: statistica.gov.md

The laundered revenues are obtained from crimes, committed both in the country and abroad. Given that most of the registered crimes were committed in order to earn a profit, the money-laundering risks are assessed as high. The national risk assessment exercise identified the following crime areas: corruption, trafficking in drugs, cyber-crimes, tax evasion and smuggling.

The Law No 165/2020 amending the Criminal Code of the Republic of Moldova No 985/2002 introduced amendments to the sanctions stated in para. (1) of Article 243 of the Criminal Code, in particular: In Article 243, para. (1) the text ‘with imprisonment up to 5 years’ shall be replaced by ‘with imprisonment up to 5 years’.

As a result, the act sanctioned by this paragraph of the Criminal Code, regulated by Article 16 of the Criminal Code, was moved into the category of severe crimes, sanctioned by the criminal law with the maximum punishment with imprisonment of up to 12 years inclusively. As a consequence, the non-aggravating form of money laundering was included in the category of crimes that allow cumulating the conditions for special investigation measures, regulated by Article 132^1 of the Criminal Procedure Code: ‘...1) in another was it is impossible to achieve the goal of the criminal proceeding and/or can affect significantly the evidence management activity; 2) there is a reasonable doubt regarding the preparation and

committing of severe, very severe or exceptionally severe crime, with the exceptions set by the law...'.

The statistics and records on money-laundering criminal cases are kept by the Ministry of Internal Affairs according to the single recording system of crimes, criminal cases and persons who committed crimes. But in this system, records are kept on the basis of unified indicators for all crimes and do not meet the needs of separate categories of crimes. In addition, the database might not contain updated information about all criminal cases due to the data collection challenges. Respectively, statistics for some categories of crimes are kept individually, manually, by the specialized units in charge of their investigation.

The significant costs of money laundering incurred by the Republic of Moldova during 2013-2014 had a major impact on the attitude of law enforcement and other authorities towards investigations, criminal examination and sentences pronounced. Thus, since 2017 the General Prosecutor's Office developed a series of guidelines, directives and action plans in order to increase the efficiency, prioritizing the illegal money-generating crimes.

5.3. Complexity and effectiveness of the regulation of assets' preservation, tracing and confiscation

This area has undergone an extensive processes of legal framework changing. By approving Law No 308/2017, OPFML, based on Article 33, may issue decisions to suspend for a period of up to 30 working days the execution of suspicious activities or transactions, as well as decisions to suspend suspicious assets, notifying the individual or legal entity subject to cessation.

If this term is insufficient, until the expiration of the term of the initially issued decision, OPFML, by well-grounded request, asks the territorial court for the extension of the term, which may not exceed 60 working days for each separate case.

During the evaluation period, the legislation of the Republic of Moldova presented major reforms in the application of temporary measures and confiscation of revenues area, by assigning to the National Anticorruption Center a new attribution – recovery of criminal assets. Thus, by Law No 48/2017 of 13.07.2017[34] the Parliament of the Republic of Moldova approved the establishment of a new subdivision within the National Anticorruption Center – CARA.

At the same time, the necessary amendments and completions were introduced in the national legislation, by introducing new terms in the Criminal Code such as: criminal assets and parallel financial investigations. Also, a new chapter 'Recovery of criminal assets' was introduced in the Criminal Code, meant to regulate the entire process of recovery of criminal assets.

However, the expression 'beneficial owner' tends to be misleading, given that the Criminal Code does not have its own definition and the term of beneficial owner

[34] https://www.legis.md/cautare/getResults?doc_id=105676&lang=ro

is provided in several regulatory documents such as: Law No 308/2017; Law No 202/2017[35] on the Activity of Banks; Law No 133/2016[36] on the Declaration of Assets and Personal Interests; Law No 407/2006[37] on Insurance; Law No 1/2018[38] on Nonbank Financial Companies; Government Decision No 484/2019[39] approving some regulatory documents on the implementation of Law No 246/2017 on State Enterprise and Municipal Enterprise; Order of the State Tax Service No 352/2017[40] approving the Instruction on Taxpayer Records; NCFM Decision No 59/6 of 02.12.2016 approving the Instruction on Direct and Indirect Holdings.

In order to provide clarity to the expression 'effective owner' of the criminal procedure law, the Ministry of Justice, with the support of CARA, initiated a draft law amending the Criminal Code, proposing the completion of Article 6 item 20^1.

At national level, have been taken measures for effective coordination of actions in this area. Thus, at the level of strategic policies, following documents were developed and implemented during this period:

- National Strategy for Preventing and Fighting Organized Crime for 2017-2019, which provides actions related to the improvement of analytical capacities, financial investigations and criminal prosecution in money laundering and terrorist financing. Progress was to be reflected in indicators of the total value of identified, seized and confiscated assets.

- The National Integrity and Anti-Corruption Strategy for 2017-2020, which sets as a basic objective the recovery of criminal assets.

In order to unify the practice on confiscation, the General Prosecutor's Office developed and approved, on 29.09.2018, the General Guideline on the application of the legal provisions regarding the seizure and confiscation of illicit assets.

The seizure is regulated by Articles 202 – 210 of the Criminal Code, as a precautionary measure for the for recovering of damage caused by the offense, eventual special confiscation or extended confiscation of assets, and warranty of enforcement of fine.

The identification of all criminal assets is a prerequisite for effective confiscation. Thus, not in all cases is possible to identify the assets that may be subject to confiscation or may contribute to the recovery of the damage, until the parallel financial investigations is completed. There are situations when, after the execution of parallel financial investigations, the suspect/defendant procures assets (e.g. real estate, vehicles, etc.) or opens other bank accounts through which transactions are carried out.

On the other hand, the current criminal proceedings do not foresee provisions by which the entities that manage certain assets records (e.g. real estate register,

[35] https://www.legis.md/cautare/getResults?doc_id=105712&lang=ro
[36] https://www.legis.md/cautare/getResults?doc_id=105905&lang=ro
[37] https://www.legis.md/cautare/getResults?doc_id=28035&lang=ro
[38] https://www.legis.md/cautare/getResults?doc_id=105391&lang=ro
[39] https://www.legis.md/cautare/getResults?doc_id=118535&lang=ro
[40] https://www.legis.md/cautare/getResults?doc_id=121882&lang=ro

transport register, centralized register of bank accounts, etc.) are required to report a certain entry/ record in the register to the authority conducting parallel financial investigations. Stipulation of legal provisions that would require entities managing Centralized Assets Registry to report certain entries/records would contribute to a more efficient recovery of criminal assets.

In accordance with Article 229^3 of Criminal Procedure Code, the identified criminal assets are made unavailable, where appropriate, by the court conclusion of seizure or by the freezing order issued under Law No 48/2017.

The freezing of assets is new to our legislation and consists in the prohibition to participate, in any form, in operations and transactions with criminal assets, to facilitate the movement, transport or transit of those assets (Article 10 (3) (e) of Law No 48/2017). Freezing of assets is ordered by the freezing order issued by the head of the Criminal Assets Recovery Agency for a period of 15 days.

The issuance of the freezing order does not require a procedural status of the person, this being applicable to the owner, holder or beneficial owner of the assets.

However, at the moment, according to Article 10 (2) of Law No 48/2017, the freezing order is issued only based on the written request of the foreign competent authorities.

The seizure of criminal assets is a precautionary measure, intended for avoidance of concealment, damage, expense (alienation), evasion of assets that may be subject to special confiscation or extended confiscation or that may serve to guarantee the execution of the fine or reparation for the damage caused by the offense.

Thus, the Criminal Code establishes four situations when the assets can be seized:

- compensation for damage caused by the offense;
- guarantee the execution of the fine;
- ensure a possible special confiscation;
- ensure a possible extended confiscation.

Also, if there is no longer assets subject to special confiscation or extended confiscation, measures shall be taken to seize their value.

If the seizure is applied to guarantee the execution of the fine, assets will be preserved according to the maximum amount of the fine that can be established for the committed offense.

If the seizure is ordered to ensure a possible special confiscation, the measure will cover all direct, indirect products of the offense, or their equivalent value, and the confiscation will be decided by the court.

If the seizure is ordered for special confiscation, it will not be ordered until the concurrency of a certain amount, the practice of the bodies in charge of precautionary measures was wrong to record in the minutes of preservation measures that the seizure measure was ordered to cover that amount as damage.

The proportionality of the interference in this case will be analyzed by the investigating magistrate or the court, based on the provided materials, including the analysis and identification of assets resulting from the parallel financial investigations.

The seizure ordered to ensure the possible extended confiscation must cover the difference between the legal and illegal income of a person in the reference period, specified in the content of Article 106^1 of the Criminal Code. In order to extend the confiscation, will be performed a financial profile, with assets and liabilities, of both pursued individuals and legal persons and of the third parties related to them.

One aspect that needs to be highlighted regarding the issue of seizures is the relatively long period of examination by the court of the prosecutor's actions regarding the seizure, which can last up to 2-3 weeks.

The Criminal Code does not set a deadline for the examination of seizure, as in the case of special investigative measures (Article 305 (3) Criminal Code – no later than 4 hours after receipt of the request).

The practice of criminal investigation bodies has shown that, in most cases, from the moment the offender is assigned a legal standing (suspect/defendant), he takes action to alienate the assets or transfer them to third parties, so that they cannot be prosecuted.

Delaying the seizure process could have irreversible repercussions for the recovery of criminal assets. Thus, the establishment of a restricted term in the Criminal Code for the investigating magistrate to comment on the prosecutor's request, would contribute to the effectiveness of the recovery process.

The Criminal Code provides two security measures to be applied to the assets:

- special confiscation
- extended confiscation.

Special confiscation as a security measure is usually ordered by a court to convict the offender of a crime. But the measure can be applied even if the offender is not charged with a criminal offense. This also happens when the court orders the termination of the criminal proceedings on grounds of non-rehabilitation, finding the intervention of a justified cause (the absence or withdrawal of the prior complaint, amnesty, death of the offender, reconciliation, intervention of limitation period, etc.).

Special confiscation can also be applied by the court if the person's criminal liability is replaced by contravention liability, because even in this case there is an offense, being replaced only by the punishment for it (from a criminal to a contravention, Article 55 of the Criminal Code). Confiscation is a measure applied in rem, on the assets related to the offense. For this reasons, it is imprescriptible and is not affected by cases that lead to the termination of criminal proceedings or removal of criminal liability.

While special confiscation consists of forced and free of charge transfer of assets to state ownership (including currency values) used in the commission of

crimes or as a result of crimes, then to extended confiscation are subjected other assets, which, although were not used to comit offenses, their origin result from certain criminal activities.

This measure consists in the forced and free of charge transfer of certain assets to the state property, which belong to the person who committed a crime, due to their origin from criminal activities of the same nature, carried out constantly by that person for a certain period of time, prior to the offense for which he/she is convicted.

This measure has a wider range of application, which allows the confiscation of other assets than those mentioned in Article 106 of the Criminal Code, such as: money and goods that cover the value of assets subject to confiscation that are not found or have been merged with legally acquired assets, as well as those money or goods obtained from the exploitation or use of assets subject to confiscation, including those in which have been transformed or converted into the assets derived from criminal activities, as well as the revenues or benefits derived from such assets.

The court disposes of the preserved criminal assets, which are returned to the rightful owner or transferred to the property of the victim, the civil party or the injured party, and in their absence, the free transfer to state property. At the same time, the Criminal Code (Article 2295 (2)) contains general norms on repatriation of criminal assets from abroad, but currently there is no mechanism adopted at legislative or governmental level to regulate the repatriation of assets.

In accordance with Article 12 Law No 48/2017, CARA ensures the recording of information on the preserved criminal assets and their management, as well as on the assets subjected to seizure, special confiscation or extended confiscation, including the creation of a specialized database in this respect. For this purpose, by Government Decision No 34 of 22.01.2020[41] were approved the regulations of the automated information system 'Register of preserved criminal assets'. Currently, the single basis of the automated system 'Register of preserved criminal assets' (AIS RPCA) does not exist, and the German Agency for International Cooperation (GIZ) has offered to identify the developer and pay for the development of this system. In order to regulate the processing of personal data within the AIS RPCA, were developed regulations and was approved the order No 109/2020 of the director of the National Anticorruption Center. At the moment, CARA ensures the recording of the information regarding the preserved criminal assets that it manages.

CARA has been trying to gather information on the seizures from the country's investigative bodies on its own, but the attempt has failed, on the grounds of secret of the investigation and only the investigating body should record this information. However, we consider that, if this rule were provided in the Criminal Code, it would have simplified the work on recording the information regarding seized assets.

In addition, on 25 June 2021, CARA signed a Collaboration Agreement with the Agency for Court Administration in order to connect to the ICMS judicial system

[41] https://www.legis.md/cautare/getResults?doc_id=120391&lang=ro

to obtain information on seized and confiscated assets. Connection to this system is possible after the development of a classifier by ITCSS to access the information according to the competencies provided in Article 2 of Law 48/2017. Thus, the Agency for the Court Administration presents statistical data on a weekly basis, but they do not provide complete information and it is not certain that the objective is achieved.

According to Article 11 of Law No 48/2017, CARA manages the preserved criminal assets. The Government Decision No 684 of 11.07.2018 approved[42] the Regulations on the Assessment, Administration and Recovery of criminal assets (seized).

CARA has open treasury accounts for the administration of seized cash as well as cash from bank accounts. Thus, all seized cash is deposited in the treasury accounts of CARA. Regarding the money seized in bank accounts, the procedure of transferring them to the treasury accounts is not clearly regulated both in the legislation and in the regulations of the National Bank of Moldova, as well as who make the transfer, thus leaving room for each bank interpretation, which leads to non-enforcement of court decisions in this respect.

The seizure of cryptocurrency is also a problem, but currently national law does not define or regulate 'cryptocurrency'. CARA has developed its own internal regulations for the administration of seized cryptocurrencies, and opened a wallet using the Exodus Software for financial investigation and money laundering through cryptocurrencies, which facilitates the possibility of tracking cryptocurrency transactions and the possible identification of final beneficial owners. CARA does not have a platform to investigate cryptocurrency blockchain transactions, and needs training in this area. There are also certain issues related to the authorization of certain international electronic payment systems (paypal.com), in the part related to the recognition of the institution by the system to provide information on the registration of investigated subjects on these platforms and other relevant information (turnovers, balances, cards, etc.).

5.4. Quality of data collection and processing by OPFML

During the evaluation period, OPFML changed its status from a specialized body, with an independent subdivision status within NAC, to an independent public authority in relation to other legal persons and individuals, regardless of the type of property and legal form of the organization, functioning as an autonomous and independent central specialized body.

In accordance with Law No 308/2017, OPFML is assigned the following basic functions:

- reception, recording, analysis, processing and submission to the competent bodies of the information on suspicious money laundering activities and

[42] https://www.legis.md/cautare/getResults?doc_id=108816&lang=ro

transactions, related crimes and terrorist financing, presented by the reporting entities, as well as other relevant information obtained under this law;

- notification of the competent law enforcement bodies as soon as it establishes pertinent suspicions regarding money laundering, terrorist financing or other crimes that have resulted in the obtaining of illicit assets, as well as the Security and Intelligence Service in terms of terrorist financing;

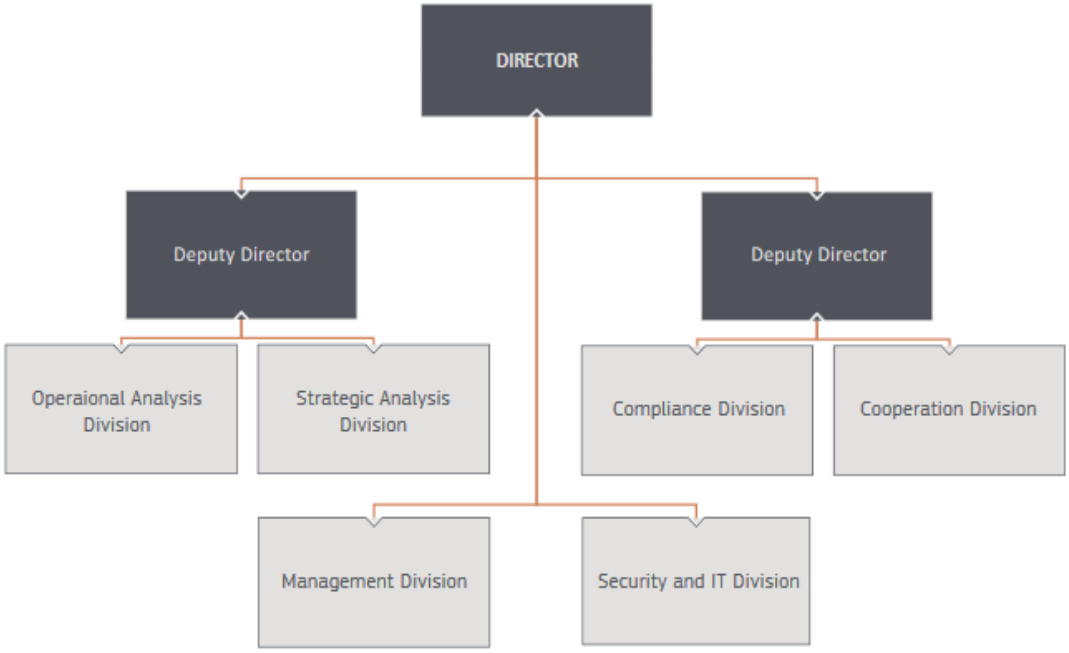
- notification of reporting entities, bodies with supervisory functions of the reporting entities and other competent authorities regarding the risks related to money laundering and terrorist financing, new trends and types in the field of money laundering and terrorist financing, established violations and gaps in the regulatory documents in terms of preventing the risks of money laundering and terrorist financing;

- performing financial investigations in order to identify the source of suspicious money laundering and terrorist financing;

- submission, in accordance with the law, of proposals regarding the improvement of the regulatory framework in force and its adjustment to the international regulations and standards in preventing and combating money laundering and terrorist financing;

- issuance of orders, regulations, recommendations, instructions and guidelines for the purpose of the law execution.

Government Decision No 299/2018 established OPFML limited number of 30 employees and approved its structure as follows:



OPFML employees have a university degree in law, finance and/or economics, experience in the financial area - banking and nonbanking, including a Master's degree. The staff of OPFML cannot hold other paid jobs, except for scientific, teaching, sports and creative activities. At the same time, according to the

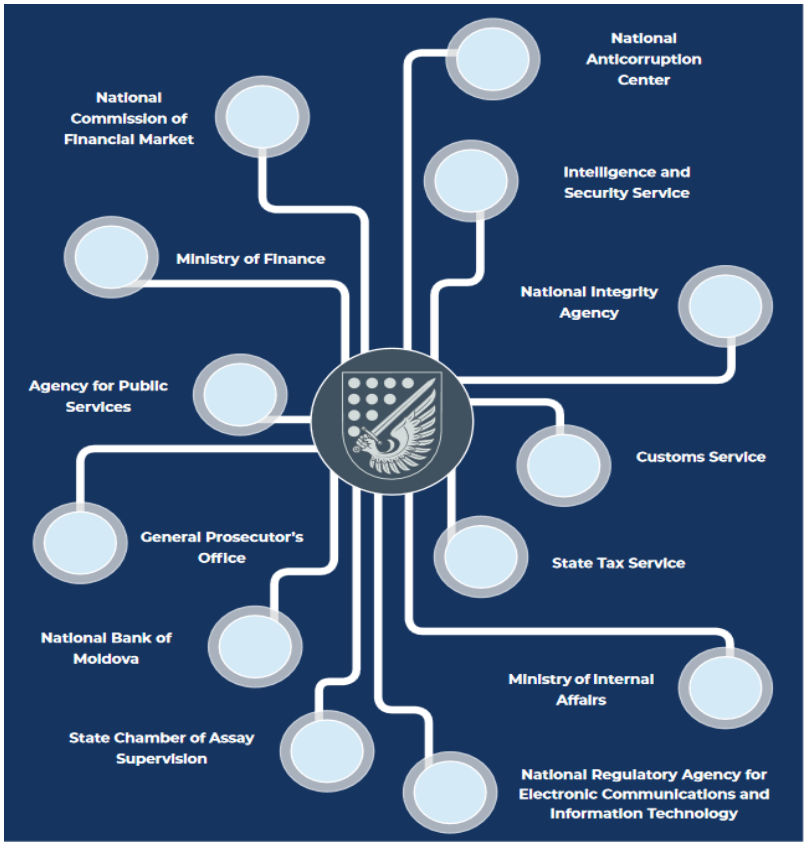
legal provisions, the OPFML employees are responsible for the disclosure, contrary to set provisions of Law No 308/2017, of the commercial, banking, fiscal, professional secret or of the personal data, for the damage caused by the illegal disclosure of the data obtained in the exercise of their duties.

In accordance with Article 11 (1) of Law No 308/2017, the reporting entities shall immediately inform OPFML about suspicious assets, suspicious money laundering activities or transactions, related crimes and terrorist financing, which are being prepared, attempted, carried out or are already concluded. Data on suspicious activities, transactions and suspicious assets are entered in special forms, which shall be submitted to OPFML within 24 hours after the identification of suspicious act or circumstances. Also, reporting entities fill in special forms on limited transactions and cash transactions.

In order to implement the reporting of information to OPFML, has been established a secure channel for submission and receipt of special forms, which are executed according to set procedures. In cases of urgency, there is a possibility for verbal reporting of activities or transactions under Law No 308/2017, presenting by phone data from the special form to OPFML officials, with the subsequent presentation of the special form in electronic format, through the secure channel, within 24 hours from the verbal reporting. The information received from the reporting entities includes confidential data of individuals/legal entities, and are kept in OPFML protected database. The OPFML technical infrastructure and software contribute significantly to increasing the efficiency, quality and operability of the performed work.

Currently, OPFML has direct access to all information systems of other national authorities, most of which are connected online.

To carry on its duties, OPFML co-operates with all authorities in the field at the national level, as: NBM, NCFM, NAC, the Ministry of Internal Affairs, the Security and Intelligence Service, the Prosecutor General, the State Tax Service, other supervision bodies, and reporting entities.



OPFML also participates at the meetings of the MONEYVAL Expert Committee of the Council of Europe, which specializes in assessing countries in terms of implementation of measures to prevent and combat money laundering and terrorist financing. Thus, the outcomes of the assessment reports of this Committee are placed special focus by all international profile organizations, FATF/GAFI, EU institutions, business associations and investors, and the risk of being assigned negative score directly affects the integration of the national banking and financial system into the international one.

Thus, during 1-12 October 2018, the Republic of Moldova, as a member of the MONEYVAL Committee, was subjected to the 5th round of assessment regarding the degree of 40 FATF/GAFI Recommendations implementation. The assessment report and the evaluators' recommendations were approved during the Plenary Session of the MONEYVAL Committee, which took place in July 2019.

According to the Report, the evaluation team made conclusions on the findings about situation in each sector and recommendations about actions to be taken by national authorities to address certain issues, which need improvement, including related to OPFML activity.

It should be noted that, at the assessment stage, OPFML had already started an extensive process of reconfiguring the national system for preventing and combating money laundering and terrorist financing, obtaining notable results.

At the same time, in order to increase the efficiency of OPFML obtained results, it is necessary to promote continuously the interests of the state by participating in the most important international forums specialized in this field. Thus, OPFML, to carry out its tasks, exchanges information with similar foreign services.

Note that the Republic of Moldova (represented by OPFML) by becoming a full member of the Egmont Group, which comprises the Financial Intelligence Units of 166 Member States, exchanges information through the Egmont Secure Web channel, which facilitates obtaining and providing information in a short time.

International cooperation in the field of preventing and combating money laundering at the OPFML level is quite intense, but obtaining information from certain states may take longer time or even be delayed. For these reasons, it is sometimes necessary to request information via rogatory letters. At the same time, the process of obtaining information evidence through treaties of mutual legal support within criminal cases takes a long time, which hinders criminal investigation and leads to delays in crime examination.

Within the context of internal cooperation effectiveness, OPFML maintains collaborative relations with all national authorities, and cooperation agreements have been signed with the following authorities: General Prosecutor's Office, State Tax Service, Customs Service, Notary Chamber, Bar Association, Security and Intelligence Service, NBM, Public Services Agency, National Regulatory Agency for Electronic Communications and Information Technology, State Chamber for Marking Supervision, NCFM, Ministry of Finance.

The process of cooperation between the bodies involved in the field of preventing and combating money laundering and terrorist financing, at national level, encounters certain difficulties, which shall be solved by creating a network of liaison officers, in accordance with Article 17 (3) of Law No 308/2017. Thus, by establishing rules approved by inter-departmentally, the exchange of information will be coordinated, with the possibility to discuss initiatives and proposals on streamlining the system.

According to the findings of the MONEYVAL Committee experts reflected in the Assessment Report, there is a good level of cooperation on the issues of preventing and combating money laundering and terrorist financing between the OPFML and the competent authorities. Thus, it has not been established any legal or other barriers to the exchange of information. The collaboration between OPFML and the law enforcement bodies in the criminal investigation is presented in the following table:

Law enforcement body	Law enforcement body requests		OPFML answers	
	2019	06.2020	2020	06.2020
General Prosecutor's Office	5	8	8	13
Anti-Corruption Prosecutor's Office	74	25	74	29
Prosecutor's Office for Combating Organized Crime and Special Cases	16	10	16	25
National Anticorruption Center	82	42	89	50
Ministry of Internal Affairs	26	17	26	17

Cases when financial information disseminated by the OPFML has been used in the criminal prosecution of money laundering, terrorist financing and major offenses or in the identification and criminal prosecution of criminal assets are presented in the following table:

Indicator	2019	2020
Overall of disseminated information	79	105
Initiated criminal cases	37	12
Disseminated investigations	14	5
- used in other criminal cases	8	33
- used by CARA	20	22
- Ongoing investigations	8	33
OPFML analytical reports used in money laundering criminal cases	13	26

OPFML submits, on the basis of dissemination and/or on request, the necessary information to the national authorities, to execute the legal powers in the field. Thus, the national cooperation between the representatives of the authorities/entities involved in the process of preventing and combating money laundering is at a high level, being efficient and operative.

5.5. Capacity and resources assigned for investigation, prosecution and trial of money laundering crimes and other financial crimes, including prosecution and confiscation of assets

In accordance with the legislation of the Republic of Moldova, the competence to prosecute money laundering and other financial crimes is delimited, as follows:

- NAC – for the offenses provided by Articles 239 –240, 243, 279 and 324–335 of Criminal Code, and those committed in connection with them;

- Customs Service - for the offenses provided by Articles 248, 248[1], 248[2] and 249 of Criminal Code.

- State Tax Service – for the offenses provided by Articles 241–242, 244, 244[1], 250–253 and 335[1] of Criminal Code, except the offenses that are assigned by law to the prosecutor.

- Ministry of Internal Affairs - carries out the criminal investigation for any crime that is not assigned by law in the competence of other criminal investigation bodies or is assigned in its competence by the prosecutor' s order.

Although the power of money laundering investigation is ascribed to the prosecution body of NAC, the General Prosecutor and the deputies thereof may decide, by motivated order, to assign performance of criminal investigation to any investigating authority (Article 271 (7) of Criminal Code); thus, there is not an impediment to investigation by other prosecution agencies of money laundering crimes in common with the predicate offense within the jurisdiction thereof or separately from it. However, in the absence of material powers provided by law, the criminal investigating bodies of the General Inspectorate of Police and Customs Service do not show an active role by default in investigating laundering of money proceeds derived from offences under their jurisdiction. This situation is explained due to the very small number of money laundering cases initiated and investigated by police, as compared to the share of criminal offenses generating international profits. The largest share of case related to initiated and investigated money laundering crimes is accounted for by the prosecution body of NAC under the management of the Anti-Corruption Prosecutor's Office.

Regarding the capacities to investigate and prosecute money laundering and other financial crimes, including the prosecution and confiscation of assets, the criminal investigation body of the NAC finds a certain decrease in the capacity to investigate this category of crimes, due to justified objective and subjective factors.

According to the CNA records, during 2018, 8 criminal cases were started, the criminal investigation being completed and submitted to court in 2 cases, in 3 cases the criminal proceedings were closed, and in one case the criminal investigation was suspended.

During 2019, 24 criminal cases were initiated, the criminal investigation being completed and submitted to court in one case, in 9 cases criminal proceedings were closed, and in one case the criminal investigation was suspended.

During 2020, 18 criminal cases were started, the criminal investigation was not completed and submitted to court, from which 16 cases were closed, in 4 cases the criminal investigation was suspended, and 8 cases were submitted to other bodies.

At the same time, due to the pandemic situation, staff was trained online or by self-training, which creates difficulties in ensuring a well-trained staff.

In other words, attracting specialists in the field has become problematic, due to a modest salary in comparison to the volume and quality of performed work, as well as the knowledge, skills and abilities required from employees to perform assigned tasks.

CARA being an autonomous specialized subdivision within the NAC, has to perform parallel financial investigations, the preservation of criminal assets, international cooperation, assessment and administration of preserved assets, negotiation of criminal assets repatriation. The area of CARA competence is the exhaustive list of offenses provided in Article 2 (2) of Law No 48/2017, namely: Articles 41, 144, 158, 164, 165, 165^1, 166^1, 167, 168, 181^2, 206, 217^1, 217^3, 218, 220, 239–240, 242^1–244, 248, 249, 259, 260, 260^2–260^4, 260^6, 279, 283, 284, 324–329, 330^1, 330^2, 332–335^1, 352^1 and 362^1 of the Criminal Code and articles 190 and 191 of the Criminal Code in the case of offenses committed using the official position. Initially, between 2017 and 2018, CARA had only 7 employees. Then, between 2018 and 2019, the number of CARA staff increased to 18 employees. As a result of the external experts' recommendations following an evaluation, at the beginning of 2020 was approved the increase of the CARA staff to 35 people, so 27 people were employed by the end of 2020. Employment takes time due to several factors such as: low level of candidates' training, COVID-19 pandemic, 3 months of control at the employment, uncompetitive salary.

In 2018, CARA seized 1,138 criminal assets for MDL 182,813,908,298, of which 49 criminal assets were seized for money laundering and other related offenses in the amount of MDL 36,691,626, 86;

In 2019, seizure was applied to 900 criminal assets in the amount of MDL 2,648,694 116.24, of which 455 criminal assets for money laundering and other related offenses in the amount of MDL 2,458,841,007, 82.

In 2020, CARA seized 1973 criminal assets for a total amount of MDL 1,862,396,479, of which for money laundering offenses (including Articles 190, 335, 284 of the Criminal Code) 1,360 assets amounting to MDL 1,750,070,040.07.

In 2018, there was no separate record for criminal assets seized from owners and beneficial owners, and for 2019-2020 the information is presented in the table:

Years/forms of ownership	Number	Seized amount
2018	1138	182,813,908.3
Owner	1138	182,813,908.3
2019	900	2,648,694,116
Beneficial owner	50	180,579,378.9
Holder	3	22,178,279
Owner	847	2,445,936,458
2020	1973	1,862,396,479

Beneficial owner	1073	1,535,303,973
Owner	900	327,092,505.7

Thus, by analyzing the information from the closed and open databases, as well as by undertaking special investigation measures, 1123 assets belonging to beneficial owners, subjects of investigations were identified during 2019-2020, amounting of MDL 1,715,883,351.9, which constitutes 39.0% of the total number of seized criminal assets.

Between 2018 and 2020, CARA kept track of preserved criminal assets through CARA executed delegates, but there were encountered difficulties in terms of foreclosures, which were challenged in court, without knowing if the seizures were or were not maintained. There were also difficulties in keeping statistical data on final confiscation decisions, because of lack of access to information.

At the same time, there were found criminal assets abroad, being applied seizures as follows:

Years/Country	Number	Seized amount
2019		
France	2	8,094,804.25
Romania	2	8,179,401.5
Russia	5	79,304,043.42
2020		
Switzerland	7	18,241,356
France	1	66,844,000
Georgia	2	617,485.6
Total	19	181,281,090.77

During 2019-2020, they were taken over in administration and deposited in the treasury accounts managed by CARA, cash in national currency and freely convertible currency, as follows:

• 2019 - MDL 14,545,227.23 the equivalent of EUR 739,327;

• 2020 - MDL 41,295,313.37 the equivalent of EUR 2,091,813.

At the same time, in connection with lifting the seizure, previously seized funds were returned/reimbursed, in a total amount of:

• 2019 - MDL 144,093.41 the equivalent of EUR 7,324;

• 2020 - MDL 12,176,141.69 the equivalent of EUR 616,825.82.

5.6. Integrity and independence of criminal investigators, prosecutors and judges

The National Integrity System evaluates the state capacity to resist corruption. The Republic of Moldova has an advanced institutional infrastructure and legal framework for prevention and combating corruption. The main institutions in the field of preventing and combating corruption are NAC, the National Integrity Authority, the Anticorruption Prosecutor's Office, the Court of Accounts, and the Security and Intelligence Service.

At the national level, 2017-2020 National Strategy of Integrity and Anti-corruption, approved by Parliament Decision No 56/2017 is the basic policy document governing the need for major domestic reforms, ensuring the effectiveness of the fight against corruption, in particular to improve international cooperation on combating corruption and ensuring the effective implementation of relevant international legal instruments[43].

Over the recent years, the legal framework has been strengthened, several important laws have been adopted in an integrity law package, which laid the foundations for the reformation of the entire integrity system, as well as making changes in the existing ones, such as:

- Law No 325/2013 was amended[44] on testing of civil servant integrity. Thus, Law No 102/2016, amended the title of the mentioned law to 'Law on Institutional Integrity Assessment'. Also by the same law, was completed the related regulatory framework, which stipulates the assessment of the institutional integrity of public entities and the possibility of testing professional integrity of civil servants.
- Law No 132/2016 was adopted[45] on the National Integrity Authority;
- Law No 133/2016 was adopted[46] on the Declaration of Wealth and Personal Interests;
- Law No 82/2017 on Integrity was adopted[47];
- Law No 122/2018 was adopted[48] on Integrity Warnings;

Fighting corruption has been a constant topic of government speeches. Once the Republic of Moldova has moved closer to the European Union, the fight against corruption has become one of the key priorities of EU-Moldova government programs and action plans.

Government changes, multiple gaps in implementing the National Anticorruption Strategy, the Justice Sector Reform Strategy, and the Association Agreement the Republic of Moldova – European Union have diminished the public confidence in the government ability to deal with corruption. Although it became

[43] https://www.legis.md/cautare/getResults?doc_id=99502&lang=ro
[44] https://www.legis.md/cautare/getResults?doc_id=106168&lang=ro
[45] https://www.legis.md/cautare/getResults?doc_id=120704&lang=ro
[46] https://www.legis.md/cautare/getResults?doc_id=105905&lang=ro
[47] https://www.legis.md/cautare/getResults?doc_id=120706&lang=ro
[48] https://www.legis.md/cautare/getResults?doc_id=105486&lang=ro

less tolerant to corruption and more active in monitoring the governance and participating in decision-making, it is still quite passive and reluctant when seeking prosecution of concrete persons for acts of corruption.

Still one of the poorest countries in Europe, the Republic of Moldova underwent important institutional reforms in several areas to ensure a competitive market economy, denoting modest advancing in international rankings related to business simplicity and competitiveness. However, for many public authority representatives, the low incomes are still a justification for corrupt behavior.

The Sociological Survey, conducted in 2019 by the 'CBS-Research' Center for Social Studies and Marketing, commissioned by UNDP[49], with the aim to assess the impact of the National Integrity and Anticorruption Strategy, the perceptions and experiences of business people, populations and the general average, recorded the following results:

- In 2017, the share of respondents who have 'enough' or 'a lot of confidence in the Prosecutor's Office', on a scale of 0% -100%, the population – 10%, business – 11% and the general average – 10%. In 2019, the share of trust in the Prosecutor's Office was as follows: population – 7%, business – 7% and the general average - 7%.

- Independence and efficiency of the Justice, the Prosecutor's Office. In 2017, the share of respondents who appreciate the activity of the Anticorruption Prosecutor's Office 'Good/Very Good', on a scale of 0% - 100%, the population – 15%, business – 18% and the general average – 16%. In 2019: population – 8%, business – 9% and general average – 8%;

- In 2017, the share of respondents who consider the Prosecutor's Office as a 'totally independent institution' on a scale of 0% -100%, was as follows: population – 7%, business – 6%, and the general average – 7%. In 2019: population – 6%, business – 4% and the general average – 5%.

- In 2017, the share of respondents who experienced acts of corruption and reported these acts to the anti-corruption agencies (National Anticorruption Center, National Integrity Authority, Anti-Corruption Prosecutor's Office) on a scale of 0% -100%, was as follows: population – 44%, business – 64%, and the general average – 50%. In 2019: population – 55%, business – 67% and the general average – 59%.

- Concerning trust in public institutions, the results of the Survey reflect a low general level of trust of the population and the business environment in public institutions in the Republic of Moldova. The population distrust the most the political parties, 75% of answers don't trust at all/ little trust, these being followed by the Parliament and the Prosecutor's Office with 67%, the Central Electoral Commission 65%, the Presidency, the Government/Ministries with 64% each and Anti-Corruption Prosecutor's Office – 60%.

[49] https://www.md.undp.org/content/moldova/ro/home/library/effective_governance/studiu-de-evaluare-a-impactului-strategiei-naionale-de-integrita0.html

- The business distrusts the most the political parties – 69% answers don't have confidence/little confidence, followed by the Prosecutor's Office with 62% and the Courts with 60% negative answers.

- There is a decrease in trust in legal institutions, according to the integrated indicators. Thus, the degree of trust in Justice decreased by 5 p.p. (7% in 2019 versus 12% in 2017), Prosecutor's Office with 3 p.p. (7% in 2019 versus 10% in 2017), NIA – 5 p.p. (6% in 2019 versus 11% in 2017).

- The perception of the level of corruption in public institutions remains negative. The data of the conducted surveys show that every second respondent considers that in Moldova there is no public institution that is not corrupt. More than half of the respondents say that the following institutions are quite/very corrupt: Political parties – 53% (63% in 2017), Healthcare institutions – 53% (56% in 2017), Courts 52% (55% in 2017), Police – 51% (52% in 2017), General Prosecutor's Office and territorial offices – 51% (52% in 2017), Customs Service – 50% (56% in 2017).

- Almost the same institutions are considered to be very corrupt by business respondents, but with lower shares: Courts – 52% (41% – in 2017), Healthcare institutions – 51% (44% in 2017), Police – 49% (44% in 2017), General and Territorial Prosecutor's Office – 49% (41% in 2017) , Political parties – 48% (51% in 2017), Customs Service – 48% (39% in 2017), Anti-Corruption Prosecutor's Office – 45% (35% in 2017), Border Police – 42% (30% in 2017).

- According to the POB[50], issued twice per year by the Public Policy Institute, the Prosecutor's Office, along with other institutions in the Justice sector lack confidence. The POB analysis of the trust evolution in the Prosecutor's Office shows a fluctuating trend: in April 2017 (when the question was included for the first time in the survey) 31% of POB respondents trusted the Prosecutor's Office, but in November 2017 their share decreased to a level of only 15%. POB data from December 2019 show that the confidence in the Prosecutor's Office has increased to 26%, but, in anyway, it has not reached the confidence level of April 2017.

Analyzing the evolution of trust in the Justice in December 2019 we note that POB data show similarities as in case of the Prosecutor's Office, if in April 2017, 24% of respondents trusted the Justice, then in November 2017, their share has substantially reduced, reaching only 14%. POB data in December 2019 show that confidence in the Justice has increased from 16% in January 2019 to 26% in December 2019.

Regarding the Police activity, according to POB data in December 2019, about the trust the respondents have in police activity, it was established that in April 2017 the share of trust was 46%, in November 2017 it was substantially reduced, reaching only 29%. POB data from December 2019 show that confidence in police activity in January 2019 was 34%, and in December 2019 it increased to 40%.

[50] http://ipp.md/wp-content/uploads/2019/12/BOP-FINAL-decembrie-2019.pdf

- The independence of judicial system is ensured, to a certain extent, by the way judges and prosecutors are appointed. The independence of the Judiciary should be ensured by the self-governing bodies, in particular – the Superior Council of Magistracy and the Superior Council of Prosecutors. With the approval of Law No 3/2016[51] on the Prosecutor's Office and the beginning of the institutional reform, the existing legal provisions ensure the real independence of the Prosecutor's Office from politics. In this respect, the procedure of appointing the Prosecutor General was modified by the President of the Republic of Moldova at the proposal of the Superior Council of Prosecutors.

- The general perception of the society is that the judicial system and the Prosecutor's Office are not independent. This perception is determined by the way in which the legal provisions are implemented. We refer to the way in which the Parliament appoints the members in the Superior Council of Magistracy and the Superior Council of Prosecutors. The legislature is not always balanced, transparent and accountable while appointing the members of the Superior Council of Magistracy and the Superior Council of Prosecutors. In practice, the independence of the judiciary would be enhanced if the capacities of self-governing bodies were strengthened.

- The national legal framework contains provisions designed to ensure the integrity of judges and prosecutors. For this judges and prosecutors are required to file statements regarding wealth and personal interests. The National Integrity Authority checks the information contained in the declarations, all the declarations being published on its website. Judges have the duty to respect the Code of Ethics for judges, and prosecutors – to respect the Code of ethics for prosecutors. In practice, despite the regulations, there are many cases of failure of integrity of the representatives of Judiciary, which are constantly reported by mass media, as well. There are cases of involvement of the representatives of Judiciary in scheme of forced takeover of property. The legal clauses on accountability fail to be applied in full, and the most serious problems relate to individual accountability of judges and prosecutors.

During 2016-2020, 30 judges and 17 prosecutors were investigated criminally, being referred to justice for acts of corruption and those related to them.

Within the police, a special problem is the lack of independence of the criminal investigation body which is part of the General Inspectorate of Police subdivisions. In fact, the current organization has deviated from the objectives set in the Concept of Ministry of Internal Affairs reform, which provided separation of Criminal Investigation Department from other subdivisions in charge exclusively for prosecution. There is no clear delineation of powers of various investigating bodies and subdivisions of the Police. The prosecuting authority is not sufficiently independent. Although there are legal rules aimed at ensuring the independence of

[51] https://www.legis.md/cautare/getResults?doc_id=117461&lang=ro

individual police officers, including procedures to contest illegal orders of superiors, these rules do not always apply. Another problem refers to appointment procedures, especially appointment by transfer of heads of subdivisions. In such cases, the competition is not mandatory. As for accountability, the problem relates to the lack of relevant criteria to assess the performance of the prosecution.

During 2017-2020, 18 criminal investigators of the Ministry of Internal Affairs and 1 criminal investigator from the Customs Service were referred to justice for acts of corruption and those related to these acts.

Despite public perception of NAC officers as the most professional, some of them were perceived as under pressure during the political crisis.

According to the data held by POB in December 2019, the society's confidence in the activity of the National Anticorruption Center in April 2017 was 31%, and in November 2017 it decreased, reaching a share of 16%. POB data in December 2019 show that confidence in the activity of the National Anticorruption Center in January 2019 was 17%, while in December 2019 it increased to 26%. During 2017-2020, 2 criminal investigators from the National Anticorruption Center were referred to justice for acts of corruption and those related to these acts.

5.7. Quality of Border Controls on cash

We note that the legal framework governing the import/export of cash in/from the Republic of Moldova includes the following legal norms: Customs Code[52] of the Republic of Moldova, Law No 1569/2002[53] on import and export of goods into/from the Republic of Moldova by individuals, Government Decision No 1140/2005[54] to approve the Regulation on implementing customs destinations and Law No 62/2008[55] on foreign exchange regulation.

According to Law No 62/2008 on foreign exchange regulation, resident and non-resident individuals are entitled as follows:

1. upon entry into the Republic of Moldova, to introduce unlimited cash in national currency and cash and traveler's checks in foreign currency;

2. upon leaving the Republic of Moldova, to draw out cash in national currency, and cash and traveler's checks in foreign currency in the total amount not exceeding EUR 10000 (or equivalent thereof) per person/trip, without submission to customs bodies of confirmative documents mentioned in point 3);

3. upon leaving the Republic of Moldova, to draw out cash in national currency, and cash and traveler's checks in foreign currency in the total amount exceeding EUR 10000 (or equivalent thereof), but not exceeding EUR 50000 (or equivalent thereof) per person/trip, providing submission to customs bodies of

[52] https://www.legis.md/cautare/getResults?doc_id=120483&lang=ro
[53] https://www.legis.md/cautare/getResults?doc_id=108665&lang=ro
[54] https://www.legis.md/cautare/getResults?doc_id=113877&lang=ro
[55] https://www.legis.md/cautare/getResults?doc_id=121168&lang=ro

confirmative documents for the amount exceeding EUR 10000 (or equivalent thereof).

At the same time, according to Law No 1569/2002 on import and export of goods into/from the Republic of Moldova by individuals, they are required to declare in writing the cash and checks in the national currency of the Republic of Moldova, as well as cash and traveler's checks in foreign currency, in the following cases:

a) upon their introduction in the Republic of Moldova, if their amount exceeds EUR 10 000 (or equivalent thereof) per person;

b) upon their removal from the Republic of Moldova, if their amount exceeds EUR 10 000 (or equivalent thereof) per person;

c) at the request of the customs officer.

In accordance with Law No 308/2017, Customs Service:

- on the 15th of the month immediately following the reported at the latest, communicates to OPFML all the information on the foreign exchange values declared by the individuals and legal entities in accordance with Articles 33 and 34 of Law No 62/2008 on foreign exchange regulation, except for the foreign exchange values declared by the NBM and the licensed banks.

- communicates immediately, but not later than 24 hours, the OPFML the information on the identified suspicious cases of import and/or export to/from the country of the foreign exchange values. Thus, OPFML examines the information according to its competence in terms of legalization of assets, obtained as a result of illicit activities.

Note that in September 2018 were made amendments (by completion) in the customs declaration DV-6 and the standard form TV-28 by adding the columns on the origin of the cash/monetary instruments, the name and address of the beneficial owner in case of another person, as well as the use of this cash (Customs Service Order No 420-O[56] of 28.09.2018).

During 2017, was verified the legality of the declaration of the currency, introduced in the country by 2044 citizens, amounting to EUR 29.8 million, USD 14.6 million and other currencies, equivalent in national currency, amounting to MDL 17.1 million.

In 2018, was verified the legality of the declaration of the currency, introduced in the country by 2193 citizens, in the amount of EUR 38.5 million, USD 13 million and other currencies, equivalent in national currency to MDL 40.4 million.

In 2019, was verified the legality of the declaration of the currency introduced by 2596 citizens, in the amount of EUR 29.1 million, USD 12 million and other currencies, equivalent in national currency to MDL 47.7 million.

In 2020, were introduced in the country by 906 citizens EUR 13.7 million, USD 4.4 million and other currencies, equivalent to the national currency in the amount of MDL 43.4 million.

[56] https://www.legis.md/cautare/getResults?doc_id=110711&lang=ro

Following the examination of illicit currency trafficking across the customs border on the basis of criminal records and customs offenses, it was found that most cases of smuggling were registered upon leaving the country, including due to restrictions imposed by the law in force.

5.8. Level of financial integrity and effectiveness of forced execution of tax receivables

The mission of the State Tax Service is to exercise the multitude of tasks and aspirations aimed at serving efficiently the taxpayers and preventing tax evasion. The main objective is to ensure the collection and worthy honoring by taxpayers of the share of income from payments administered by the State Tax Service.

Since 1 April 2017, the tax authority of the Republic of Moldova has been reorganized and became the unified national tax administration entity. The new structure was organized on the principles of functionalities: taxpayer service, control and arrears.

At the same time, continuous voluntary compliance of taxpayers represents a priority in the activity of the State Tax Service. Thus, the Program of Voluntary Compliance is approved annually, which establishes the types of activity in the national economy that will be under increased attention of the tax authority and the voluntary compliance measures that are proposed to be undertaken.

The voluntary or forced compliance actions are carried out on the basis of the risk analysis performed by the State Tax Service. For this, in order to consolidate the management of compliance risks, the register of tax compliance risks is updated annually, which are divided in the following parts:

- General risks;
- Specific risks;
- Risks in relation to VAT;
- Risks in relation to individuals, citizens;
- Risks in relation to business entities, large taxpayers;
- Risks in relation to individuals with high income;

After the identification of the risks, follows the assessment stage, which has as final goal – the establishment of the risk hierarchy, by prioritizing. The objective of assessing and prioritizing compliance risks is to evaluate the significance of the risks identified in the activity of taxpayers and to prioritize the outcome of compliance and available resources. The risk assessment shall be carried out in a way that facilitates the monitoring and identification of the priority sequence according to the risks. The probability of risk occurrence is expressed by the possibility of determining certain tax liabilities, which have been intentionally or unintentionally reduced by the taxpayer.

Depending on the consequence of the risk on the level of collection of tax liabilities in the budget, the risk may be:

- low – the risk will have a small effect, the amounts of tax liabilities that may be reduced by the taxpayer do not significantly affect the level of budget execution;
- medium – the risk can appear in additional calculations to the budget, but which have an average influence on the level of budget execution;
- high – the risk means a high level of tax non-compliance, which can lead to significantly diminished/hidden tax liabilities.

The State Tax Service reviews regularly all sources of information, assessing the risk criteria met by each taxpayer and establishing compliance procedures according to the level of risks.

Depending on this, there will be established:

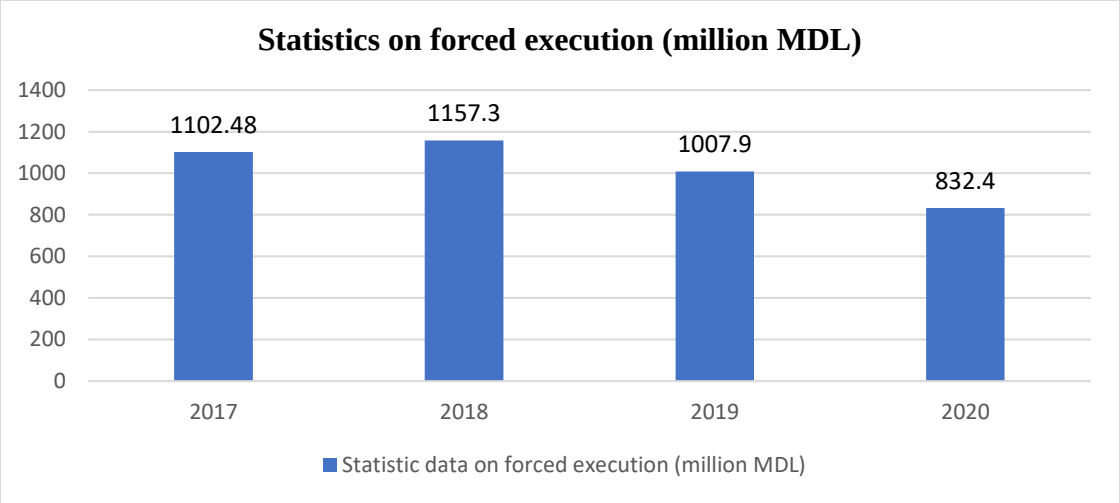
- A list of taxpayers (taxpayers engaged in entrepreneurial activity for more than 2 fiscal periods) in the sectors of the national economy, which are set as a priority for that year, which will be subject to continuous monitoring for at least 12 months, by applying voluntary compliance measures;
- A list of taxpayers that will included in the approved monthly/quarterly/annual control plans;
- A list of taxpayers that will be monitored from the perspective of tax posts (including on the basis of information received from third parties or subdivisions of the State Tax Service);
- A list of taxpayers who will be subjected to operational control measures;
- A list of taxpayers who will be subjected to fiscal inspections according to the projects (envelope wages, fight against VAT fraud, other projects carried out by the State Tax Service).

It should be mentioned that, according to the letter of the Government of the Republic of Moldova No 1414-100 of 05.02.2004, the list of taxpayers selected based on risk analysis shall be excluded resident taxpayers of free economic zones, in whose case inspection is carried out exclusively providing the consent of the Prime Minister.

In accordance with the rules on moral (non-financial) stimulation of honest taxpayers, approved by Order No 396/2015[57] of State Tax Service, from the list of taxpayers selected based on risk analysis are excluded the taxpayers entitled to moral (non-financial) stimulation, holders of certificates of credibility, who benefit of 2-year exemption, since certificate issuance date, of general and thematic tax audits.

Taking into account the multitude of measures taken by the State Tax Service, there are still arrears on basic payments. Thus, the State Fiscal Service, based on Article 194 of the Tax Code[58], applies the methods of forced execution to settle the tax liabilities of the delinquent taxpayers, which allowed the collection of payments to the National Public Budget according to the table.

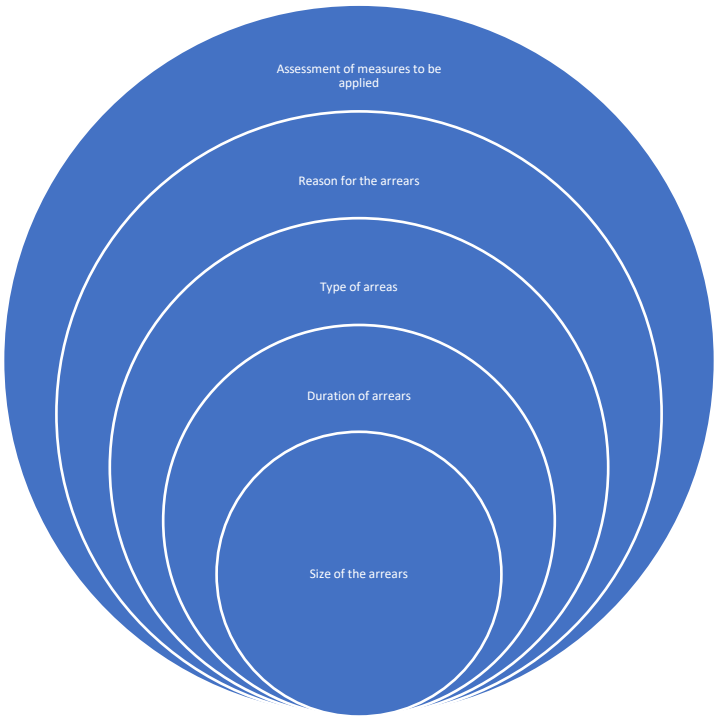
[57] https://www.legis.md/cautare/getResults?doc_id=99239&lang=ro
[58] https://www.legis.md/cautare/getResults?doc_id=79111&lang=ro



source: sfs.md

Ensuring the full and timely collection of revenues to the national public budget by the State Tax Service is an important and indispensable condition for the smooth running of the society's development. To ensure a sound fiscal management and a better collection, the tax body must not only limit itself to the dynamic collection of budget revenues, but also the full and short-term recovery of budget arrears.

For this, is required a prompt, diversified and reasonable undertaking of methods and measures of assurance and enforcement, as well as the sequence of actions to ensure the efficient collection of arrears with minimal risks and costs. The priority strategic objective is to ensure the recovery of arrears, as well as the reduction of their amount by the consistency of the measures applied based on the existing legal framework. During the analysis of the arrears on each taxpayer, the State Fiscal Service will establish:



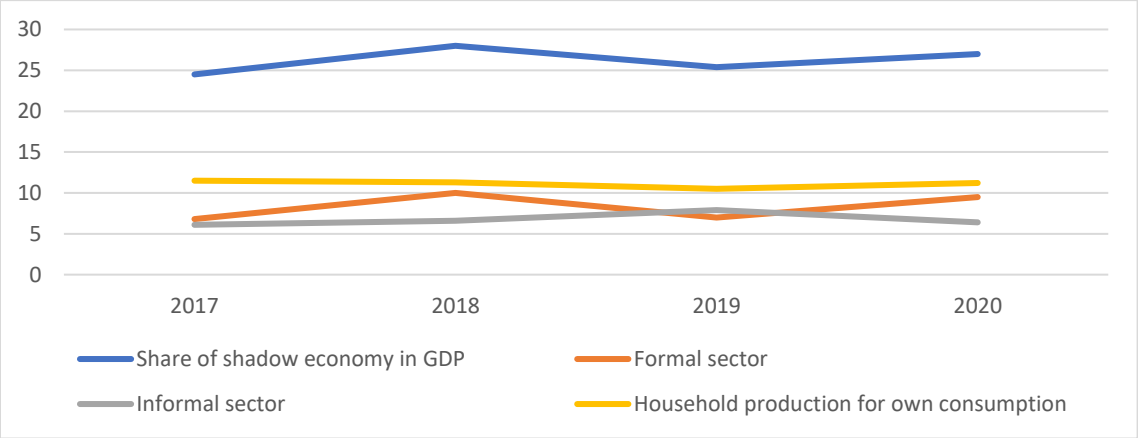
If the size of the overdue tax liability is considerable, the tax official under Article196 para. (5) of the Tax Code, is entitled to apply several enforcement actions at the same time.

5.9. Level of formalization of the economy

The shadow economy comprises all economic activities, which do not fall within the scope of the state authorities, which is composed of the production or hidden services of the formal sector, the production of households for self-consumption and the production and services of the informal (illegal) sector. The fact that some economic activities are hidden and not in the eyes of the state authorities has a negative impact on the country's development prospects.

The share of shadow economic activities in the economy of the Republic of Moldova is increasing. According to the official data of the National Bureau of Statistics, for the period 2017-2020 the share of the shadow economy varied, being registered the following variables: 24.5% in 2017, 28% in 2018, 25.4% in 2019 and 27% in 2020, respectively.

Note that during the covered period the share of the informal sector, i.e. illegal activities, increased. The share of this component of the shadow economy increased from 6.1% of GDP in 2017 to 6.4% in 2020.

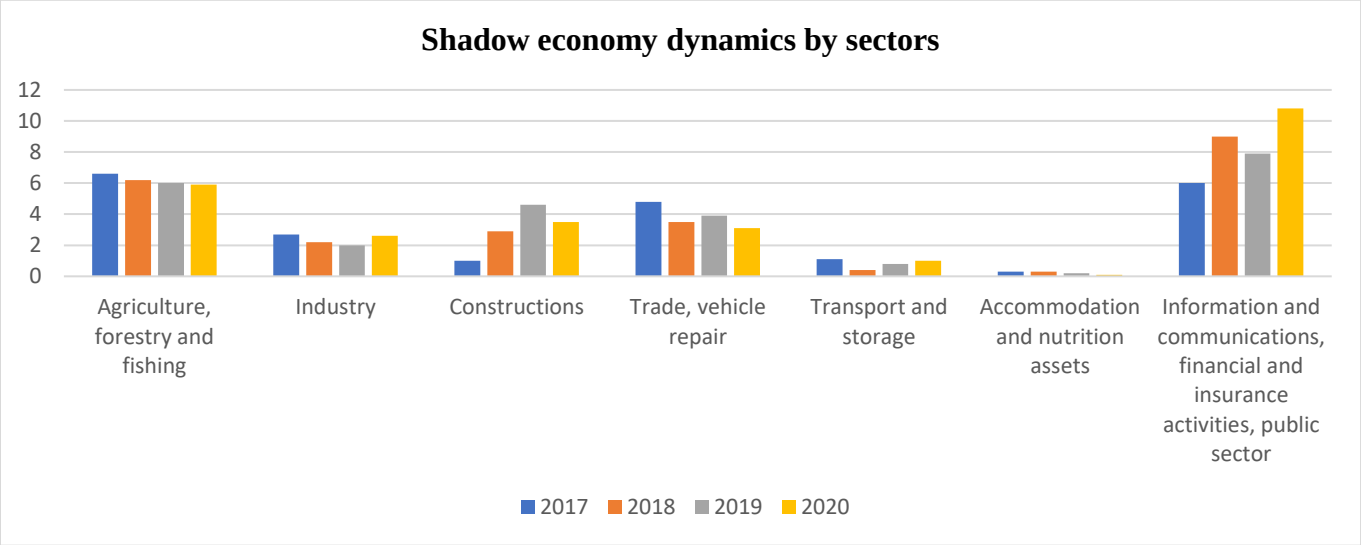


Source: statistica.gov.md

The largest shares in the shadow economy from the point of view of economic activity, were registered by the information and communications sector and financial activities having a share of 9% of GDP in 2017, 9% in 2018, 7.9% in 2019 and 10.8 in 2020, followed by the agricultural sector with 6.2% of GDP in 2017, 6.4% in 2018, 6% in 2019 and 5.9% in 2020.

At the same time, according to estimates, wholesale and repair of vehicles registered a record growth of 6.2% in 2018, compared to 3.5% in 2017, 3.9% in 2019 and 3.1% in 2020. In the reference period, the share of industry registered ranged between 2.2 and 2.8% of GDP, and of constructions – between 2.4 and 4.6% of GDP.

The transport and storage sector, together with the accommodation and catering activities, registered the lowest references in relation to shadow economy.



Source: statistica.gov.md

In 2020, undeclared labor among employees amounted to 6.5%, decreasing by 0.7% compared to the previous year (7.2% in 2019). The practice of hiring without individual employment contracts (based on verbal agreements) is more common among male employees (8.9%) than female employees (4.3%). The largest shares of employees, who work only on verbal agreements, are attested in agriculture (48.3%), trade (16.0%), construction (15.3%) and industry (6.4%).

In 2020, 16.7% of all employed people worked in the informal sector, and 22.4% had an informal job. A share of 23.8% of people working informally, were employees. In the non-agricultural sector, the share of informal employment was 10.8%

Of the total number of employees, 6.8% had an informal job. 6.7% of employees received 'envelope wages', and their highest shares are attested in agriculture (60.8%), construction (13.4%), trade (9.9%) and industry (6.3%).

In conclusion, a key factor for the increase of the shadow economy is the tax incidence in general and the tax incidence on employment in particular (especially that of contributions to social insurance, health and pension funds) fueled by the spread of corruption in public institutions, which allow business entities to evade paying taxes and subsequently escape punishment. At the same time, corruption is an additional barrier for small entrepreneurs from the shadow economy to enter the legal field. Additionally, a special role in stimulating the shadow economy in the Republic of Moldova plays the political instability, a phenomenon that reduces the ability of law enforcement bodies to fight against violations of the law.

5.10. Availability of reliable identification infrastructure and independent sources of information

In accordance with Law No 305/2012[59] on the re-use of public sector information to ensure public access to documents intended for re-use, as well as according to the Methodology of publishing open government data, approved by Government Decision No 701/2014[60], the Public Services Agency ensures the weekly publication/updating of the open data on the governmental portal https://date.gov.md of the datasets regarding the legal entities and the individual entrepreneurs registered in the Republic of Moldova, based on the extracts from the State Register of Legal Entities.

According to Article 34[1] of Law No 220/2007[61] on State Registration of legal entities and individual entrepreneurs, the state registration body ensures the public viewing of the information from the State Register on its official website. The public information contains data on the name of the legal entity, legal and organizational form, the state identification number (IDNO), the date of registration, the legal address, the name and surname of the managing director, the name and surname or name of the founders (associates) and the size of their shares in the share capital, the status of the legal entity (passive, inactive, in the process of reorganization or deletion, suspension of activity), as well as the name, surname, date of registration, state identification number (IDNO) of the individual entrepreneur and data on its de-registration.

According to Article 34[1] of Law No 220/2007 and Article 10 of Law No 305/2012, the information is accessed free-of-charge. At the same time, note that the information cannot be searched automatically, the access to this information is difficult.

According to Article 34 of Law No 220/2007, the term for issuing the information from the State Register and from the acts of incorporation is 3 working days from the date of the applicant's request. At applicant's request, the information from the State Register can be provided urgently within 24 hours, 4 hours or 1 hour.

We note that the information fees from the State Register are expressly provided in the annex to Law No 220/2007.

Note that starting with 23.08.2018, in order to comply with Article 14 of Law No 308/2017 on preventing and combating money laundering and terrorist financing, about 22,000 legal entities and individual entrepreneurs have declared data on beneficial owners by the end of 2020.

At the same time, the Public Services Agency according to provisions of a signed agreement with competent authorities, provides access to the information on

[59] https://www.legis.md/cautare/getResults?doc_id=22449&lang=ro
[60] https://www.legis.md/cautare/getResults?doc_id=118577&lang=ro
[61] https://www.legis.md/cautare/getResults?doc_id=17339&lang=ro

beneficial owners of legal entities and individual entrepreneurs through ICS 'Web Access' search system.

No	Publicly available data	Method of obtaining	Free/for payment	Presentation/update deadline
	Data from the State Register of Legal Entities (State Register of Legal Entities and State Register of Individual Entrepreneurs)			
1.	Data from SRLE (excluding personal data)	Connection to ICS 'Web Access' on a contract basis	against payment/free	on-line
2.	Data on enterprises registered in the Republic of Moldova	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	weekly
3.	Statistics data on enterprises registered in the Republic of Moldova, individual order	electronic format	against payment/free	under contractual terms
4.	Statistics data on legal entities and individual entrepreneurs classified according to different criteria	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	monthly
5.	Electronic gazette on state registration and/or deletion of legal entities and individual entrepreneurs	Accessing the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	monthly
6.	Data on nonprofit organizations registered in the Republic of Moldova	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	weekly
	Data from the AIS 'Management and Issuance of Permissive Documents'			
7.	Statistics data on: - number of issued, extended and renewed licenses, fees paid; the number of declarations and applications for the issuance/extension and re-issuance of licenses online, according to the declared types of activity; - the number of suspended, withdrawn and declared invalid licenses according to the declared types of activity; - number of valid licenses, by activity type	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	monthly

8.	Information on license holders for 'the activities related to employment in the country and abroad of the citizens of the Republic of Moldova'	Accessing the official page asp.gov.md, section, 'Useful information' heading 'Statistics data'	free-of-charge	weekly
Data from the Cadastre of Real Estate				
9.	Data from Cadastre of Real Estate, excepting personal data	Connection to the central database of real estate on the contract basis	against payment/free	on-line
10.	Statistics data on the registration of real estate, individual order	electronic format	against payment/free	under contractual terms
11.	Statistics data on the registration of real estate	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	quarterly
Data from the State Register of Administrative-Territorial Units and Addresses				
12.	Data on territorial administrative units and addresses, individual order	electronic format	against payment/free	under contractual terms
Data from the State Register of Vehicles				
13.	Statistics data on registered vehicles, individual order	electronic format	against payment/free	under contractual terms
14.	Statistics data on registered vehicles: administrative-territorial division; vehicle types division; vehicle types division and administrative-territorial division	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	monthly
Data from the State Register of Drivers				
15.	Statistics data on drivers, individual order	electronic format	against payment/free	under contractual terms
16.	Statistical data on drivers, in the division of categories	Accessing the platform https://date.gov.md or accessing the official page asp.gov.md	free-of-charge	monthly
Data from the State Register of Population				
17.	Statistics data on individuals, individual order	electronic format	against payment/free	under contractual terms

18.	Statistics data on: individuals with the domicile or temporary residence in the Republic of Moldova, according to territorial administrative principle; individuals with the domicile or temporary residence in the Republic of Moldova, age principle; individuals with the domicile or temporary residence in the Republic of Moldova, citizenship principle; citizens of the Republic of Moldova who obtained the authorization of emigration	Accessing the platform https://date.gov.md or the official page asp.gov.md, section 'Useful information' heading 'Statistics data'	free-of-charge	monthly
19.	Statistics data on: most popular surname of newborns, most popular male forename of newborns, most popular female forename of newborns, most common age of deceased persons, number of newborns registered by the territorial structures of civil status bodies	Accessing the portal https://date.gov.md	free-of-charge	annually
20.	Statistics data on: Number of documents drawn up by the territorial structures of civil status bodies	Accessing the portal https://date.gov.md	free-of-charge	quarterly
21.	Statistics data on: registration of marriages with foreign citizens, registration of divorces with foreign citizens, registration of deaths of foreign citizens	Accessing the portal https://date.gov.md	free-of-charge	quarterly

5.11. Risk of using legal entities registered in the Republic of Moldova in money laundering and/or terrorist financing offenses

According to Article 171 (1) of the Civil Code[62], the legal entity is a subject of law set up under the conditions of the law, having an independent organization and its own and distinct patrimony, for the achievement of a certain purpose according to the law, public order and principles of morality. Legal entities are governed by public or private law. Only legal entities under private law will be considered in the analysis of the use of legal entities for money laundering and terrorist financing.

The basic legal framework that governs the activity and state registration of legal entities in the Republic of Moldova is:

- The Civil Code of the Republic of Moldova;

[62] https://www.legis.md/cautare/getResults?doc_id=112573&lang=ro

- Law No 845/1992[63]on entrepreneurship and enterprises;
- Law No 135/2007[64] on limited liability companies;
- Law No 1134/1997[65] on joint stock companies;
- Law No 160/2011[66] on the regulation through authorization of entrepreneurial activity;

Governed by private law are legal entities, set up by private persons, who pursue a particular purpose of the founders (members, associates) or of other persons determined or determinable by the act of incorporation.

Governed by private law are legal entities with lucrative purpose and nonprofit legal entities. In legal doctrine this division is also known as a division into commercial and nonprofit companies. The main difference between these two categories is the purpose pursued by the founders (associates) of these legal entities. Setting up the company, the founders aim at obtaining and sharing the benefits, and when a nonprofit company is set up, the associates aim to satisfy their spiritual, cultural, social needs and even the needs of people not belonging to the company. The founders and the associates have transferable property rights to the company, while in the nonprofit ones the associates, as a rule, do not have transferable property rights.

The legislation of the Republic of Moldova governs 4 forms of companies:

- general partnership;
- limited partnership;
- limited liability company;
- joint-stock company.

The company can be defined as a legal entity founded on the basis of the act of incorporation by which the partners agree to pool certain assets for the fulfilment of entrepreneurial activity in order to obtain and share benefits.

The general partnership is a legal entity, founded by the will of at least two or more persons, expressed in the act of incorporation, in which they agree to pool certain assets in order to carry out entrepreneurial activity, achieve and share benefits and in which the partners are unlimited and jointly liable for its obligations. The limitation clause is not enforceable against third parties. The associates perform the administration and representation of the company, and the decisions about the amendment of the act of incorporation and management of the company are adopted unanimously.

Limited partnership represents the company where besides the associates who carry out entrepreneurial activity on behalf of the company and bear unlimited joint and several liabilities for its obligations (limited partners), there are one or more partner-funders (limited partners) who do not participate in the entrepreneurial

[63] https://www.legis.md/cautare/getResults?doc_id=17094&lang=ro
[64] https://www.legis.md/cautare/getResults?doc_id=12242&lang=ro
[65] https://www.legis.md/cautare/getResults?doc_id=118686&lang=ro
[66] https://www.legis.md/cautare/getResults?doc_id=117045&lang=ro

activity of the company and bears within the contribution limit the risk of losses resulting from the company's activity. The administration and representation of the company is done by the limited partners. Limited partners establish how the company is managed, administered and represented in accordance with the provisions of the Civil Code regarding the company in general partnership.

A limited liability company is a legal entity, formed by the will of one or more persons, expressed in the act of incorporation, whose share capital is divided into shares according to the act of incorporation and whose obligations are guaranteed by the company's assets.

The joint stock company is a legal entity, founded by the will of one or more persons, expressed in the act of incorporation, whose share capital is divided into shares and whose obligations are guaranteed by the company's assets. Note that according to the legislation of the Republic of Moldova, the joint stock company is entitled to place only registered securities.

The organizational-legal form of the legal entity does not have a direct influence on the type of activity. However, in case of certain activities, the form of organization and the need of a license are expressly provided (e.g. in the case of insurance or banking activities).

Limited liability companies and joint stock companies are the most common forms of legal organization in the Republic of Moldova. Foreign individuals and legal entities can establish a company, as a sole founder or in partnership with national individuals/ legal entities.

The state registration of legal entities, their branches, as well as of individual entrepreneurs, is carried out by the Public Services Agency on a working day within 24 hours, calculated from the working day immediately following the one in which the necessary documents for registration were submitted. Emergency registration is done in 4 hours.

The following documents are submitted for the state registration of legal entities:

a) application for registration, signed by the founder designated by the incorporation decision or, where appropriate, signed by another person empowered by the incorporation decision. The model of the application for registration, together with the instructions for filling in the application, is approved by the state registration body and published on its official website. If a legal entity intends to carry out activities in a regulated area, the application for registration shall state on its own responsibility the prior endorsement/approval of the competent authority regarding its establishment;

b) decision of incorporation and the act of incorporation of the legal entity, depending on the legal form of organization, approved by all founding associates;

c) NCFM endorsement – for insurance companies, non-state pension funds, savings and loan associations and, in the cases established by law, for nonbank financial companies;

d) document confirming the payment of the registration fee;

f) information about the beneficial owner(s), in accordance with Law No 308/2017.

For the state registration of legal entities with foreign investments, in addition to the application for registration, should be attached the following:

a) extract from the register in which the legal entity with foreign investments is registered, translated and notarized;

b) act of incorporation of the foreign legal entity.

The Public Services Agency will check the following data at the registration of the legal entity in the State Register of Legal Entities:

1. Name of the legal entity

According to Law No 220/2007 on the registration of legal entities and individual entrepreneurs, any new name should differ from the existing ones, so that there is an obvious and clear distinction between them.

2. Regarding founders

In case of individuals, will be checked the identity documents and that there were not previously registered legal entities on their name with debts to the national public budget or that do not work and have not been liquidated in the way established by law.

In case of legal entities, will be checked the founders' decision and that there were not previously registered legal entities on the name of the legal entity with debts to the national public budget or that do not work and have not been liquidated in the way established by law.

3. Regarding the company's activity – will be applied the 'Classification of Activities in the Economy of Moldova' (CAEM) and Law No 160/2011 on the regulation through authorization of entrepreneurial activity.

4. The legal entity's premises will be checked – it should be real, which requires the existence of a building or offices in the building that the legal entity owns legally or the owner's consent regarding the use of that premises.

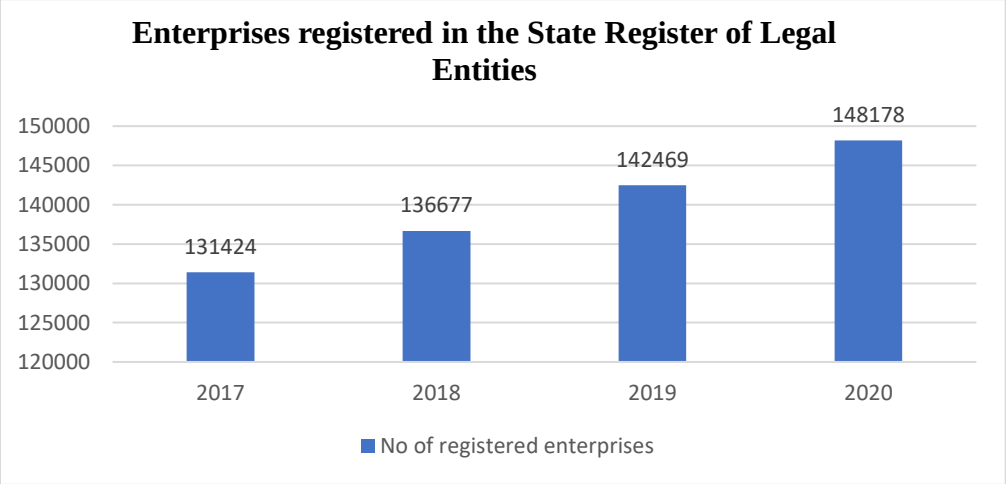
Note that, in accordance with Article14 of Law No 308/2017, the Public Services Agency, according to the established procedures, checks, registers, keeps records and updates the data on the beneficial owners of legal entities and individual entrepreneurs upon their registration, registration of amendments in the act of incorporation of legal entities, registration of the entities subject to reorganization and their deletion from the State Register. Legal entities and individual entrepreneurs are required to obtain and have adequate, accurate and up-to-date information on their beneficial owner, including details of his benefits, to provide the state registration body with the requested information on the beneficial owner and to inform immediately if the data about the owner are amended.

State registration of legal entities and individual entrepreneurs is prohibited in the absence of data on the beneficial owner and/or if the information provided is false or incomplete.

For the purpose of enforcing this legal provision, the Public Service Agency approved the Instruction on collection and verification of information on beneficial ownership in the State Register of Legal Entities and Individual Entrepreneurs, which establishes the duties of registrars within the Registration Services of Legal Entities and specialists for the collection, verification and registration of such data, as well as the declaration on the beneficial owner. Until 31.12.2020, were introduced data on the beneficial owners of approximately 22,000 legal entities.

According to open source data, the information in the State Register of Legal Entities is being constantly updated.

The data on the companies registered during the assessment period are presented according to the following chart:



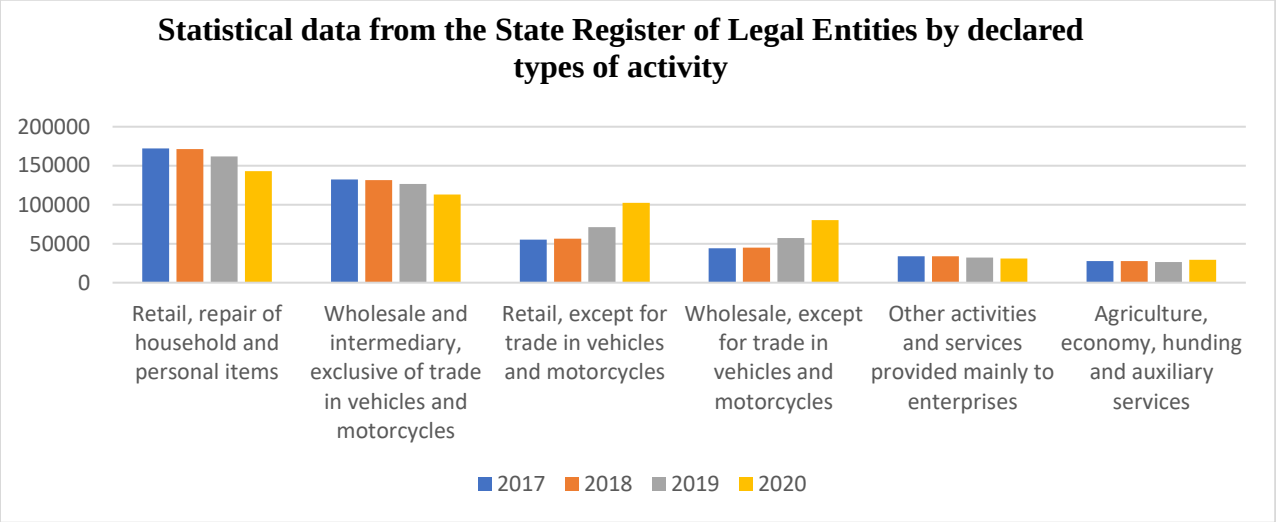
According to the data from the State Register of Legal Entities, during 2017 – 2020 there was an increase in the number of registered enterprises, so in 2017 there were 131,424 and in 2020 – 148,178, which means an increase by 16,754 units.

At the same time, regarding the type of registered company, most of them were limited liability companies.

Type of the company	2017	2018	2019	2020
Limited liability company	82 612	85 979	88 649	89 264
Individual enterprise	32 669	30 454	28 197	24 156
Consumer cooperative (including service providing)	1 476	1 464	1 451	1 399
Joint-stock company	1 901	1 905	1 868	1 695

Joint stock companies represented about 1% of the total number of enterprises registered as of 31.12.2020. There are some types of activities, e.g. banking, insurance, etc., for which the legislation requires joint stock company organization form. According to statistical data, there is a decrease in the number of registered joint stock companies, most of which were created during the period of mass privatization. Note that, the legislation of the Republic of Moldova does not provide for the possibility of issuing bearer shares.

Regarding the type of activity, there are a large number of registered retail enterprises, repair of household appliances and individual enterprises.



The activity framework of the nonprofit organizations sector in the Republic of Moldova

The legal framework for governing the activity and state registration of nonprofit organizations in the Republic of Moldova includes:

- The Civil Code of the Republic of Moldova;
- Law No 294/2007[67] on Political Parties;
- Law No 837/1996[68] on Public Associations (repealed on 27.08.2020);
- Law No 86/2020[69] on Nonprofit Organizations (in force since 27.08.2020);
- Law No 581/1999[70] on Foundations (repealed from 27.08.2020);
- Law on Employers' Organizations No 976/2000[71];
- Law on Trade Unions No 1129/2000[72];
- Law on Registers No 71/2007[73];
- Law No 125/2007[74] on Freedom of Thought, Conscience and Religion;
- Law No 171/2010[75] on Irrigation Water User Associations;
- Law on Press No 243/1994[76];
- Law No 221/2010[77] on Privatization of Public Periodicals;

[67] https://www.legis.md/cautare/getResults?doc_id=25035&lang=ro
[68] https://www.legis.md/cautare/getResults?doc_id=122717&lang=ro#
[69] https://www.legis.md/cautare/getResults?doc_id=122391&lang=ro
[70] https://www.legis.md/cautare/getResults?doc_id=122718&lang=ro#
[71] https://www.legis.md/cautare/getResults?doc_id=108557&lang=ro#
[72] https://www.legis.md/cautare/getResults?doc_id=97457&lang=ro
[73] https://www.legis.md/cautare/getResults?doc_id=104973&lang=ro
[74] https://www.legis.md/cautare/getResults?doc_id=107318&lang=ro
[75] https://www.legis.md/cautare/getResults?doc_id=121478&lang=ro#
[76] https://www.legis.md/cautare/getResults?doc_id=109428&lang=ro
[77] https://www.legis.md/cautare/getResults?doc_id=106615&lang=ro

- Law No 137/2015[78] on Mediation;
- Law No 1420/2002[79] on Philanthropy and Sponsorship;
- Law No 244/2017[80] on Sectoral Committees for Vocational Training;
- Law No 220/2007 on State Registration of Legal Entities and Individual Entrepreneurs;
- Law on Accounting and Financial Reporting No 287/2017[81];

The legislation of the Republic of Moldova (in force during the assessment period 2017 - 2019) allowed the registration of non-governmental organizations according to three legal forms of organization:

1. association (public association, religious cult/its component part, party, trade union, employers' organization);
2. foundation;
3. private institution.

The Public Services Agency is responsible for the registration of any type of nonprofit organization.

The activity of the nonprofit organization, both philanthropic and sponsoring, financially, is governed by the tax law, namely the Tax Code of the Republic of Moldova. The Tax Code establishes the principles of taxation, the legal status of taxpayers (the concept also includes nonprofit organizations), the principles of income and expenditure control, the liability for violation of tax legislation.

According to Article 52 of the Tax Code, to nonprofit organization category are assigned the following organizations:

a. public associations (according to Law No 837/1996);
b. foundations (according to Law No 581/1999);
c. philanthropic organizations (according to Law No 1420/2002);
d. religious organizations (according to Law No 125/2007);
e. political parties and socio-political organizations (according to Law No 294/2007);
f. periodicals and press agencies (according to Law No 243/1994 and Law No 221/2010).

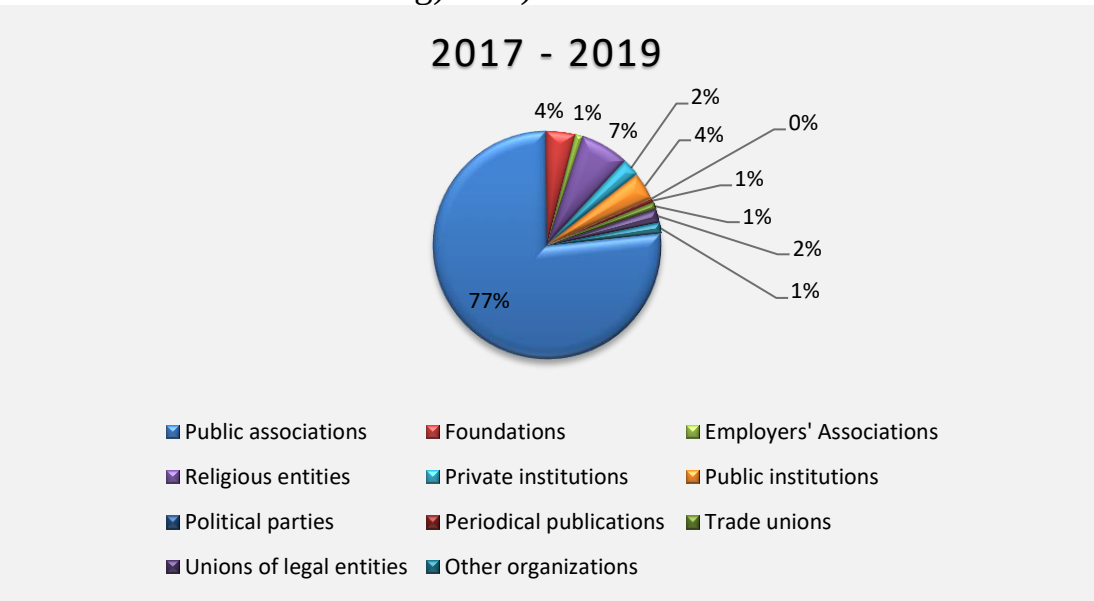
By Ministry of Finance Order No 188/2014 were approved the methodical indications on the accounting specifics in nonprofit organizations and the completion of the General Plan of Accounts, approved by the Minister of Finance Order No 119/2013. The above indications set out some exceptions or specific provisions regarding accounting in nonprofit organizations.

According to data provided by the Public Services Agency, the total number of nonprofit organizations has increased since 2013. Thus, between 2013 and 2017, over 400 nonprofit organizations were registered annually in the Republic of

[78] https://www.legis.md/cautare/getResults?doc_id=110536&lang=ro
[79] https://www.legis.md/cautare/getResults?doc_id=108161&lang=ro
[80] https://www.legis.md/cautare/getResults?doc_id=105720&lang=ro
[81] https://www.legis.md/cautare/getResults?doc_id=125231&lang=ro#

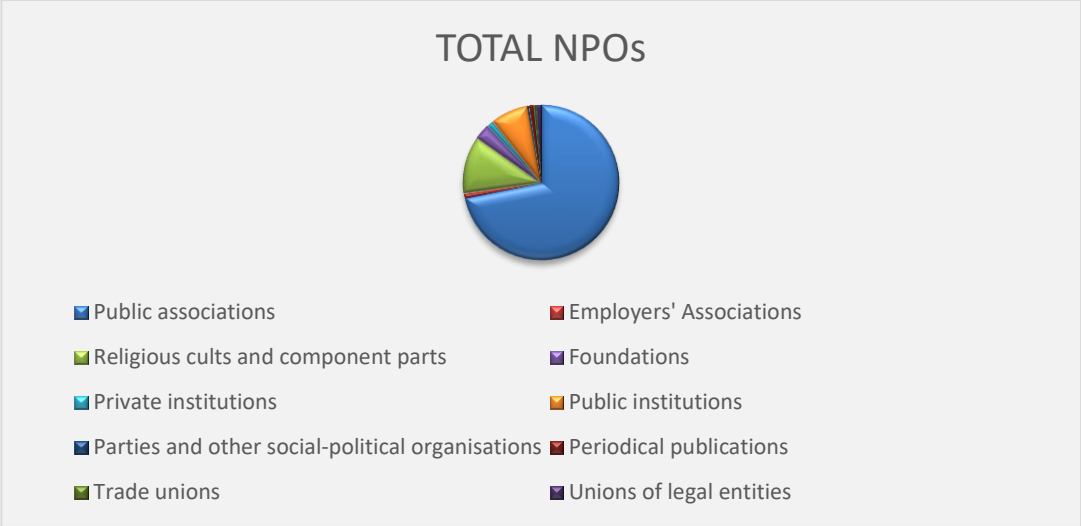
Moldova. A major issue is the verification, registration, record keeping and updating of data on the beneficial owners of nonprofit organizations. During the evaluation period, the Public Services Agency only collected, on paper, the information regarding the beneficial owners of the nonprofit organizations.

According to the statistical data 1442 nonprofit organizations were registered between 2017-2019, (public associations – 1104; foundations – 57; employers' associations – 17; religious entities – 99; private institutions – 36; public institutions – 56; political parties – 1; periodicals – 8; trade unions – 15; legal entities – 27; other organizations (mediation organizations, irrigation water user associations, sectoral committees for vocational training) – 22).



According to the situation on 01.01.2020, 13850 nonprofit organizations were registered in the State Register of Legal Entities:

- Public associations – 9899;
- Employers' Associations – 134;
- Religious cults and their component parts – 1638;
- Foundations – 446;
- Private institutions – 183;
- Public institutions – 1080;
- Parties and other socio-political organizations – 47;
- Periodicals – 119;
- Trade unions – 81;
- Unions of legal entities – 140.



We note that the representatives of foreign organizations are registered in the Republic of Moldova in strict accordance with national law and mandatorily in one of the following legal forms of organizations such as public association, foundation or private institution.

Areas of nonprofit organizations activity

The nonprofit organizations existing today in the Republic of Moldova are involved in practically all possible areas, but, analyzing the situation in quantitative terms, we find that almost half of the organizations work either in the social area or in education.

The share of non-governmental organizations in the education sector is largely due to the associations of parents and teachers within the schools. 20% of the total number of organizations included in the study are nonprofit organizations that contribute to community development, implementing projects to rehabilitation and extension of local infrastructure.

One in ten nonprofit organization works in the area of human rights, and another 7.4% – in the youth sector. 6.5% of nonprofit organizations work in the environmental area, and 4.3% are interested in economic development. 3.4% of organizations work in mass-media.

There are areas where the presence of nonprofit organizations is developing and these include European integration, culture and art, science, sports, health, consumer rights.

At the same time, nonprofit organizations often do not focus their efforts on single and well-defined areas of activity. Most nonprofit organizations adopt a series of short-term guidelines, creating a wide field of maneuver to adapt to the financing environment. Thus, it is difficult to establish clearly the area types of nonprofit organizations.

Trusts

Amendments to the Civil Code of the Republic of Moldova, operated by the Law on Modernization of the Civil Code and Amendments to certain Legislative Acts No 133/2018[82],which entered into force on 1 March 2019, aligned the national legislation with international trends. Along with many changes and additions, the introduction of trusts in national civil law is an important development.

Thus, according to Article 2055 of the Civil Code, the trust is a legal relationship in which a party (trustee) is obliged to become the owner of a patrimonial mass (fiduciary patrimonial mass), to manage and dispose of it, in accordance with the conditions governing the relationship (trust conditions), for the benefit of a beneficiary or to promote a purpose of public benefit.

The introduction of trust in the Civil Code aimed to modernize the private law of the Republic of Moldova, to respond to practical needs in the increasingly complex civil and commercial circuit, but also to ensure the implementation of new features introduced by other amendments and completions operated by Law No 133/2018.

The definition provided by the Civil Code allows to highlight the following particularities of trust:

- trust is a legal relationship;
- the parties of this relationship are: the settlor, the trustee, the beneficiary and (optionally) the trust assistant;
- the fiduciary assets do not represent a patrimony, but assets (consisting of patrimonial rights and obligations) that is part of the fiduciary patrimony – this approach of the legislator, inspired by French and Romanian law, maintains the theory of the uniqueness of the person's patrimony;
- the fiduciary assets have a special regime of protection (this particularity results not only from the definition, but especially from other norms regarding the trust, but we mention it in this list, because of its importance for the trust), namely: fiduciary assets represent a patrimony distinct from the trustee's own patrimony (personal patrimony of the trustee) and from any other fiduciary assets whose holder is the trustee. Thus, insofar as the trust is enforceable against them:

a) personal creditors of the trustee cannot follow the fiduciary assets, neither within the insolvency of the trustee, nor outside it;

b) the spouse of the trustee does not acquire any title over the fiduciary patrimonial mass;

c) the trustee's successors are not entitled to any benefit from the fiduciary assets;

- a trustee is the owner of the patrimonial assets, the owner of the assets, the creditor of the receivables and the debtor of the debts from the fiduciary assets;

[82] https://www.legis.md/cautare/getResults?doc_id=34327&lang=ro

- a trustee has the duties to manage and dispose of the fiduciary assets for the purposes and conditions of the trust;
- a trust is constituted for the benefit of a beneficiary or to promote a purpose of public benefit.

Note that the legal relationship of trust is not to be confused with the legal relationship of fiduciary management, these two having different nature and content. Thus, the following clarifications should be mentioned: the trust manager does not acquire the title of the assets transferred in fiduciary management, but only owns and manages them, signs legal acts regarding them on behalf of the founder. After all, the trust manager is a financial agent of the founder. Unlike, the trustee becomes the owner of the assets transferred to him and signs legal acts in his own name, on the account of the fiduciary patrimonial mass of which he is the holder.

Considering that the trust has been introduced quite recently in the legislation of the Republic of Moldova, this aspect is not subject to the assessment from the perspective of the risks of money laundering and terrorist financing.

6. Sector Reports

6.1. Banking sector

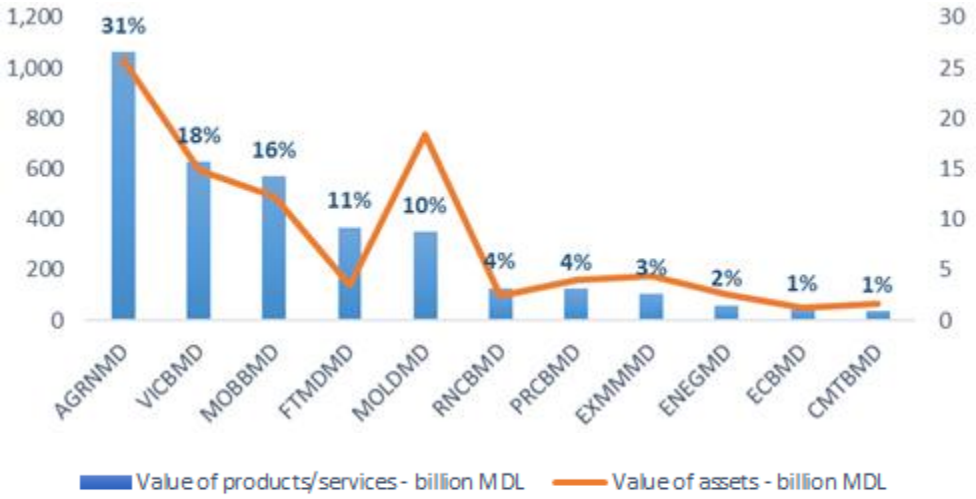
During 2017 – 2020, 11 commercial banks were licensed and operated in the Republic of Moldova. In 2020, their assets increased by 14.6% and reached about MDL 13.2 billion. This value constituted in 2020 an average share of about 58.98% of the annual GDP, giving the banking sector an important influence on the identified and considered factors in the process of assessing the risks of money laundering and terrorist financing.

Also, the banking sector is characterized by a relatively large number of customers, about 1.9 million customers on average, thus benefiting from the products and services of commercial banks both resident and non-resident individuals and legal entities. Their risk profile, denotes an average level of risk, given that the vast majority of customers are resident individuals, beneficiaries of a wide range of products and services.

At the same time, there are 7 commercial banks in the banking sector, with a majority share of offered products and services, whose founders are internationally renowned banking groups from the European Union member countries. All the commercial banks in the Republic of Moldova may conduct financial activities permitted under the legal requirements on attracting deposits, issuing loans, performing transfers and payments, issuing cards and other payment instruments, conducting foreign exchange operations, activities of investment portfolio management and consultancy, providing fiduciary services, trading in money market instruments, including futures and options, trading securities, etc. Thus, in the chart

below, it can be observed the structure of the banking sector according to their data, and depending on the services offered by the entities and the value of their assets:

Structure of the banking sector according to the value of products and services compared to the value of assets



In view of the negative events of the previous period, when some banks were involved in large-scale fraud and transit transactions, which tarnished the image of the financial-banking sector, during 2017-2020, were undertaken a series of measures to rehabilitate banks and improve their supervision.

Thus, within TWINNING project, funded by the European Union, has been strengthened the prudential supervision, by aligning with international standards (BASEL III). The most important results of the project are: development of a new banking law, development of the National Bank of Moldova internal rules on the efficient exercise of the supervisory function and optimization of the organizational structure, and the increase of the level of expertise of the National Bank of Moldova and bank representatives on the Basel III framework through internal training, case studies, practical exercises, etc.

Also during this period, have been substantially improved the regulatory framework and the supervising of the banking sector on preventing and combating money laundering and terrorist financing. Thus, were approved the Law No 308/2017, the secondary regulatory framework and recommendations/guidelines, the National Assessment Report on the risks of money laundering and terrorist financing, a new Strategy and Action Plan for minimizing the identified risks and vulnerabilities, etc. Also, the capacity of the National Bank of Moldova for supervision in this field was strengthened, by creating a specialized subdivision, allocating additional resources, organizing regular employee training, initiating a project, with the support of partners, to procure a specialized IT solution, which will support the employees in the process of remote analysis of data and information for the early identification of risks of money laundering and terrorist financing.

At the same time, in order to strengthen the internal system of banks in preventing and combating money laundering area, the National Bank of Moldova requested them to perform external audit, by contracting an internationally renowned audit company, providing them with appropriate audit areas (internal policies, know-your-customer measures, transaction monitoring, increased precautionary measures, transaction reporting, etc.). As a result of external audit assessments, have been identified various deficiencies of the system in preventing and combating money laundering and terrorist financing, and as a result, the banks have developed new internal policies and procedures and substantially improved their mechanisms and the internal processes of identifying and assessing the risks of money laundering and financing, of knowing customers and application of proper requirements of the regulatory documents in force related to this area.

However, it should be noted that part of the territory of the Republic of Moldova is under the control of unrecognized and illegitimate authorities, the Transnistrian region. Respectively, the financial-banking sector faces a relatively high continuing risk of money laundering and terrorist financing associated with this region, including people and their activities in this area. Thus, the so-called 'banks' operating in the eastern part of the Republic of Moldova are not licensed by National Bank of Moldova to conduct financial activities, are not subject to supervision by any certified authority, are not recognized and accepted internationally, and therefore are not required to comply with the legal requirements of know-your-customer rules in the light of international standards on anti-money laundering and counter terrorist financing.

However, in order to ensure the continuity and functionality of the existing economic relations between the business entities from the Transnistrian region and the businesses operating on the territory of the Republic of Moldova, the Cash Settlement Center in Tiraspol was opened a temporary correspondent account in MDL at the NBM (Parliament Decision No 885/1996 on the opening of a temporary correspondent account with the Tiraspol Cash Settlement Center at the National Bank of Moldova). According to statistical data, annually through this Center are made payments of about MDL 3 billion on average.

The regulatory framework in force in preventing and combating money laundering and terrorist financing area provides the banking sector with rules and procedures for fulfilling legal obligations. Thus, the basic acts in force are Law No 202/2017 on Banks Activity, Law No 548/1995[83] on the National Bank of Moldova, Law No 308/2017 and Regulation No 200/2018[84] on requirements for prevention and combating money laundering and terrorist financing in the activity of banks, and other regulatory documents issued for the implementation of Law No 308/2017.

[83] https://www.legis.md/cautare/getResults?doc_id=121233&lang=ro
[84] https://www.bnm.md/ro/content/regulamentul-cu-privire-la-cerintele-privind-prevenirea-si-combaterea-spalarii-banilor-si

Law No 308/2017 establishes the following requirements for commercial banks:

- risk assessment;
- application of customer due diligence measures, including identification and verification of the beneficial owner of customers, obtaining information on the purpose and nature of transactions, transactions monitoring;
- application of enhanced customer due diligence measures, including in cross-border relationships, politically exposed persons relationships and in other situations of risk;
- record keeping;
- reporting suspicious transactions to OPFML;
- application of the requirements relating to funds transfer operations;
- application of international restrictive measures;
- application of internal control measures, etc.

Comprehensive identification and assessment of money laundering and terrorist financing risks related to the banking sector involves the analysis of all risk variables associated with the sector, reporting entities in the sector, products and services offered by them, but also the distribution channel used to supply the products and services. The analysis of all relevant data and information, including information collected from supervisors, facilitates the identification of money laundering threats and vulnerabilities and terrorist financing specific to the banking sector. Thus, following the accumulated and evaluated data, it was established that the banking sector constitutes a 58% share in the national GDP, being in a relatively average measure of attractiveness. However, banks, by the way they interact with the business environment and the products and services provided to its customers, may in certain circumstances be misused directly or indirectly by offenders, having a high impact on the prevention and control system of money laundering and terrorist financing. Note that the financial analyzes, criminal investigations and the most numerical and essential sentences were carried out with the involvement of the banking sector, thus categorizing the sector with a relatively medium-high threat.

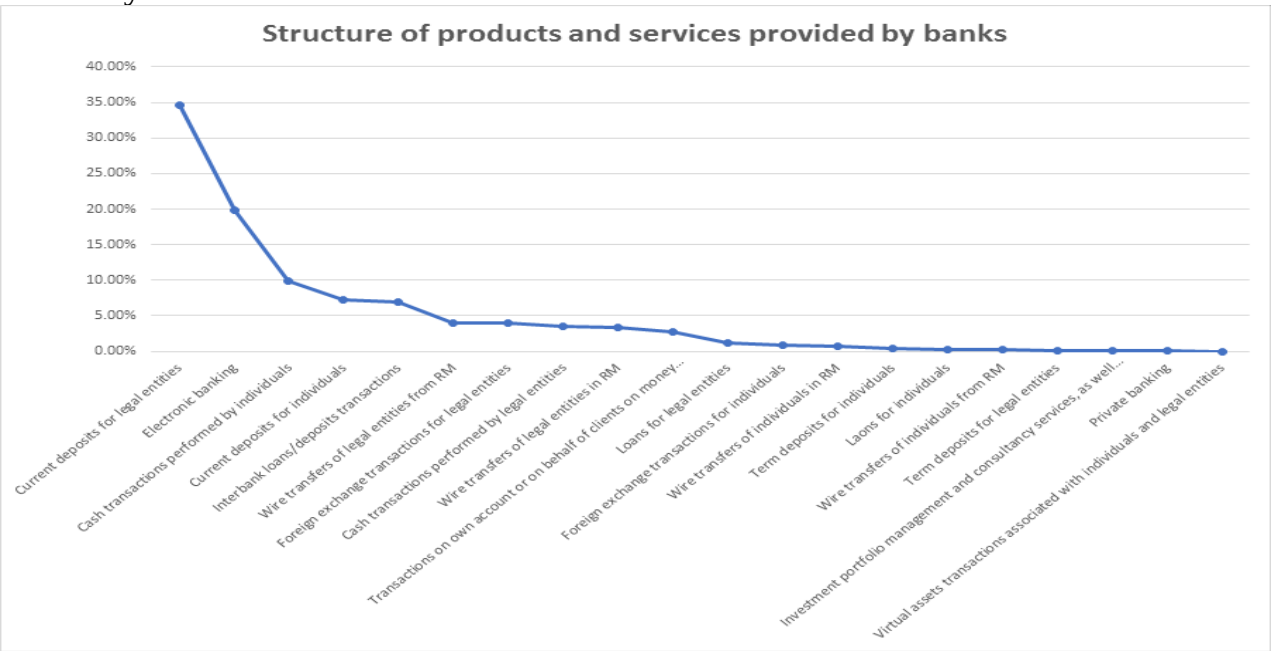
In the same context, it should be noted that the vulnerabilities and threats established at national level have also an impact on the degree of vulnerability of the banking sector, such as:

- Corruption within law enforcement and judiciary bodies,
- Lack of independence in the activity of law enforcement and judiciary bodies,
- Existence of multiple control levels in the process of criminal investigation,
- Insufficient pecuniary penalties for money laundering and financial crimes

We mention that they have a major impact on the abuses that can be realized in the banking sector and can create premises for the development of the associated criminal climate, through the use of bank card fraud, non-performing loans, misappropriation by some bank employees, etc.

According to the analyzed statistical data, there are different patterns of the influence of products and services provided by commercial banks on the risk of money laundering and terrorist financing.

Thus, in the chart below, can be observed the structure of the products/services offered by the commercial banks:



The vulnerabilities associated with the products/services represented in the chart have been identified taking into account the individual associated risk elements, such as: the existence of the investment/storage particularities, the use level of the associated cash, the frequency of associated international transactions, anonymous use, associated types and abuses, their use for the purpose of tax evasion and fraud, difficulty in ensuring the traceability of data retention, use of remote banking products and services, distribution of banking products and services through agents, etc.

Additionally, the deficiencies and shortcomings of the regulatory framework were taken into account, as well as the procedures and tools applied by the competent authorities to prevent the misuse of the sector, such as: the effectiveness of the regulatory framework; the effectiveness of supervisory procedures and practices; knowledge of bank employees; availability and applicability of administrative and criminal sanctions; the effectiveness of the compliance system (internal control); the effectiveness of monitoring and identification of suspicious transactions and availability; the effectiveness of control measures at the entrance, etc.

Regarding the regulatory framework in force, the following gaps were identified, but not limited to them:

- Lack of customer precautions (trusts, legality of powers, identity of senior management, verification of customer information and the beneficial owner from secure and independent sources, identification of the beneficial owner, etc.);

- Insufficient procedures and practices for assessing the risks of money laundering and terrorist financing;
- Insufficiency of the mechanism that applies international restrictive measures;
- Gaps in the system for identifying suspicious transactions and activities;
- Lack of increased precautionary requirements at the FATF request in the case of relationships with non-transparent jurisdictions;
- Insufficiency of sanctions enforcement mechanism for non-compliance with the requirements of preventing and combating money laundering and terrorist financing;
- Lack of money laundering and terrorist financing typologies;
- Lack of a detailed secondary framework for precautionary measures application to customers in the case of long-distance relationships.

Thus, the products/services that impose the risk of money laundering and terrorist financing identified within the risk analysis are: transactions via current accounts of legal entities and individuals; services related to currencies/virtual assets associated with individuals and legal entities; international transactions into/from the Republic of Moldova associated with legal entities; cash transactions associated with individuals and legal entities; transactions via electronic banking services and transactions to/from Transnistrian 'banks'.

Also, the identified customers who expose the banking sector to a high extent risk of money laundering and terrorist financing are: customers and/or their non-resident beneficial owners; customers who have a complex ownership structure; resident customers of the Transnistrian region, clients of politically exposed persons and their associates. In the absence of demonstrated economic purpose, customers performing cash transactions were characterized by other risk elements as those conducting transactions through electronic banking services; and the resident customers from non-transparent regions identified by the FATF.

In these circumstances, we get a vulnerability of the banking sector, characterized by a medium-high level, caused by on the one hand to the products/services offered by banks that involve a high risk of money laundering and terrorist financing, but also to certain identified gaps referring to the applicability of the regulatory framework in force.

6.1.1. Bank supervision

The NBM is the only institution empowered to license commercial banks, their subdivisions, to grant permits of shareholding in the capital of banks, as well as to authorize the administrators of their governing bodies. To fulfill these duties, the NBM has legal provisions in force; it developed and approved regulatory documents on 'fit and proper' criterion, licensing of banks and their subdivisions,

granting permits to hold shares in banks' capital, approval of managing directors, etc.

Considering the 2014 Evaluation Report carried out by the International Monetary Fund and the World Bank on compliance with BASEL principles, we mention that for the analyzed period (2017-2019) the transparency of the shareholding structure in banks is largely ensured.

Thus, within the implementation of licensing of banks' activity, NBM assesses whether the quality of potential buyers of substantial shares in the share capital of banks is appropriate and adequate, cumulatively examining the criteria regarding the reputation and financial soundness of potential buyers; the qualification, reputation and experience of any person who will act as a bank administrator as a result of the proposed acquisition; the bank's ability to comply with the prudential requirements of the bank; the existence of reasonable grounds for suspecting that, in relation to the proposed acquisition, an offense or attempted money laundering or terrorist financing offence is or has been committed; as well as to suspect that the beneficial owner of the proposed acquisition is a person other than the one declared to the NBM.

At the same time, during 2017-2019, when examining the applications for license issuance, approval of managing directors, issuance of permits, information request from the law enforcement bodies, as well as from the supervisory authorities abroad, 126 requests for information were sent and 119 letters of reply were received from national authorities, as well as 72 information requests were sent to supervisors of other countries and 66 letters of reply were received from them. The NBM has signed cooperation agreements for exchange information purpose with supervisory authorities in Romania, Hungary, Lithuania, the Russian Federation, Georgia, the Republic of Kazakhstan, the Republic of Belarus and the Group of Banking Supervisors from Central and Eastern European Countries (BSCEE) and the European Central Bank.

The Evaluation Report of the MONEYVAL Committee highlighted that NBM has a robust system in place to prevent offenders and their associates from establishing control over banks and appointing them as bank managers. As a recommendation, was highlighted the need to continue monitoring the changes happening at the level of shareholders and management of the institutions.

Also, as a supervisory authority, NBM has a legal framework that empowers it to regulate and supervise the preventing and combating money laundering and terrorist financing area, as well as to impose sanctions on both banks and their management, persons responsible for preventing and combating money laundering and terrorist financing.

In order to carry out supervisory tasks, a number of measures are taken, such as the development of the secondary regulatory framework and the appropriate recommendations, the application of the risk-based approach; development of the mechanisms and tools used to monitor reporting entities; performance of remote and

field inspections; application of sanctions; cooperation with national and international authorities responsible for preventing and combating money laundering and terrorist financing, etc.

Therefore, the NBM conducts on-site and remote inspections to analyze how regulatory documents related to the area are implemented and, in particular, if banks have written policies and procedures, if risks of money laundering and terrorist financing are identified and assessed, if customer precautions and monitoring of their transactions are applied, including the application of enhanced precautions, identification and reporting to the OPFML, implementation of internal control measures, etc.

NBM also performs off-site supervision of data from reports submitted by banks, data obtained from the Automated Interbank Payment System, as well as those obtained from the SWIFT-FINInform system. Accumulated information and data are analyzed on a monthly and/or quarterly basis depending on the identified risks.

When identifying dubious or suspicious transactions, NBM requests additional information from banks on know-your-customer measures applied by the bank, including the performed transactions, and in particular, measures applied to identify the customer and the beneficial owner, proper verification of customer and beneficial owner identity information, transactions monitoring, application of precautionary measures, collection of supporting documents when conducting transactions, determination of the money source, reporting suspicious transactions to OPFML, etc.

As a result of inspections, NBM traced out violations related to as follows: non-identification and non-verification of customers and beneficial owners; inadequate monitoring of transactions, lack of transaction supporting documents and lack of information on the origin of funds in the accounts; inadequate establishment of the customer risk level and, subsequently, non-application of special security measures towards such customers, including in relationships with politically exposed persons; inadequate identification of suspicious transactions and subsequently, failure to report such transactions to OPFML.

However, the existence of an assessment of the risks of money laundering and terrorist financing carried out by NBM for the banking sector or the existence of an internal procedure for 2017-2019 was not established. There is also a lack of automated analytical tools, which manifests itself in time and additional resources spent on determining potentially dubious transactions involving commercial banks and their customers.

However, the risk analysis in this area highlighted gaps and deficiencies in the supervisory procedures and practices applied by the NBM, and in particular: the lack of money laundering risk assessment and terrorist financing in the sector, the lack of a comprehensive application of the risk-based approach in supervision, inadequate controls in certain high-risk areas and late decision-making, insufficient allocation

of resources, inadequate tools and mechanisms for on-site and remote supervision, etc.

Some of the described deficiencies and gaps were also identified in the 5th Evaluation Report of the MONEYVAL Committee, as well as the Evaluation Reports prepared by the International Monetary Fund and the World Bank at various stages of the joint partnership. Thus, the following deficiencies were highlighted – gaps related to the regulatory framework; inefficient implementation of the risk-based approach, lack of sufficient resources, lack of supervision of banks registered in the Transnistrian region and their transactions, as well as deficiencies on sanction application, small number and amount of fines and their inefficiency, etc.

Regarding the applied sanctions, we mention that during 2017-2019, the National Bank applied cautionary sanctions (9 warnings from the bank and 3 warnings from the responsible persons), prescriptions for removing infringements and drawing up plans for their removal, fines to the bank (4) and its managing directors (6), prohibition on holding management positions within the bank (2). Most decisions of imposing fines to commercial banks and managing directors, as well as more severe ones, have been challenged in the appropriate courts.

Taking into account the number of licensed banks, the performed controls, the type of found infringements and deficiencies, it has been established a higher number of sanctions applied compared to previous periods, the practice of sanctioning licensed banks as a result of found infringements and deficiencies in their activity in prevention and combating money laundering and terrorist financing has been improved – which is in line with both the recommendations of the MONEYVAL Committee and the recommendations of the International Monetary Fund and the World Bank Report.

As a result of the evaluations, a number of recommendations have been made, some of which have already been implemented and others are awaiting implementation by the NBM and other authorities responsible for preventing and combating money laundering and terrorist financing.

6.1.2. Financial inclusion

As a result of the development of the financial markets and economic changes that take place in the modern society, there is an ever-growing need to increase the financial education of the population especially by promoting financial education. Thus, a series of products, services and activities have been developed, aimed to inform the population regarding the changes and developments that took place in the financial system.

During 2017-2020, NBM carried out several information and awareness campaigns with various topics, in particular, to promote the financial education of the population. Thus, the central bank offered the public a series of videographics, podcasts and video guides made with the support of foreign partners. They

presented, in a concise and accessible way, financial concepts and useful tips for everyday life, related to the rapid development of financial products and services.

Smart financial planning – such as budget planning, emergency saving and preparation for retirement – can help people enjoy a better life and get over certain crises more easily. Financial education involves accurate information on various concepts and financial tools, savings and investments, thus ensuring the optimal ratio between income and expenditures.

Proper education leads to the development of the right financial skills and knowledge to make financial decisions of any kind, wise and appropriate, which will ultimately contribute to increasing the financial inclusion of the population and increasing consumer protection and the development of the financial market for strong and effective governance and the provision of quality products and services with minimal risks. Also a positive impact has had the promoted campaigns aimed to inform about the decreasing interest rates, the developing payment instruments, consumer protection, limiting the cash in the economy, etc.

Financial inclusion has a positive impact on the perception of the rights to financial services, as well as protecting the lawful state by preventing frequent use of the shadow banking and financial services or informal money remittance systems for illegal purposes. Target groups for inclusion would include people with disabilities, migrants and remittance beneficiaries from abroad, women and students. The latter have also an appreciable potential of trainers, who in time will transmit the knowledge gained to different segments of the population.

The commercial banks, in turn, inform the population about the offered products, specially created to solve some social problems, for example, cards were issued to be used by persons that receive pension or receive allowances for raising children.

Taking into account the statistical data of the banks, the volume of products offered is, however, relatively modest. Thus, during 2017-2019, the volume of products in the context of financial inclusion granted by banks increased from about MDL 7.2 billion to MDL 10.5 billion, having an insignificant share in the annual GDP of about 5%.

Regarding the risk assessment of money laundering and terrorist financing of the products offered in the context of financial inclusion, we mention that at the moment no indicators have been identified that could lead to such a risk.

6.2. Securities sector

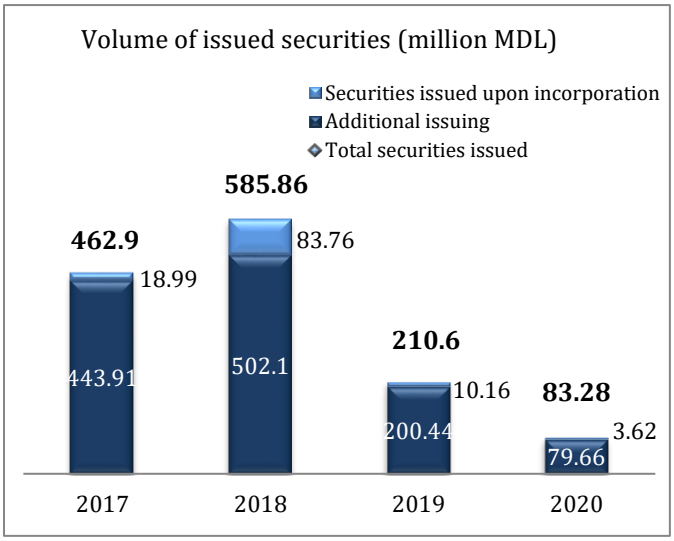
In the structure of the set of elements that constitute the domestic capital market, we distinguish the continuous process carried out within two basic segments – primary and secondary, meant to regulate and supervise the issuance and circulation of capital securities, as well as all related activities.

Obstacles to the development of distinct segments of the capital market, including the lack of liquidity and the diversity of available financial instruments, implicitly of the corporate bonds issued by local public authorities, are the challenges found in analyzes of the size and evolution of the primary and secondary capital market.

Securities investments

From the point of view of the volume of share capital, recorded in the Register of issuers of securities kept by NCFM since the establishment of the capital market (1992-2019), the size of the primary market reveals a capitalization, valued at nominal or fixed value of issued shares, in the amount of MDL 28.7 billion, of which - MDL 13.2 billion represents the equity capital invested in the establishment of joint stock companies, and MDL 15.5 billion - the additional capital invested during their activity.

Note that, although in the last 3 years prior to 2020, the volume of share issues was significantly higher than in 2020, this is explained by the dominance, in the indicated period, of unit placements of shares, made by banks and insurance companies, based on the obligation to enforce the provisions of the legislation on the quality of shareholding of these entities (cancellation of shares illegally acquired by some shareholders and issuance of new shares on its behalf). In this order, if, within that indicator, registered in 2015-2020, the influence of this derogating factor would be attenuated, then we deduce that the actual infusions of financial resources on the stock market represent an annual average of about MDL 260 million, a value comparable to the level reached in 2019.



Viewed from the perspective of issuers capitalization of capital market instruments, it was found that the period 2017 - 2020 was not exceptional, the shares were the only securities in circulation on the corporate capital market, the placements being made exclusively in a limited circle of people, through closed issues.

Assessed from the perspective of the origin of the capital invested by the issue of shares, it was revealed that, even in this context, the primary market did not record essential structural changes, and the investments of funds in the share capital of joint stock companies were mainly of local origin.

Secondary market

On the background of the primary sector evolution, the dynamics of the basic indicator of the secondary segment (volume of transactions) kept the upward trend. In particular, the sharp rise was due to the increase in the volume of securities transactions on the regulated market, while reducing this indicator within the MTF and outside the stock market segment. Unlike the value of registered transactions, their number, within each sector, registered decreasing values.

Indicators	2017		2018		2019		2020	
	number (units)	volume (mil. MDL)	number (units)	volume (mil. MDL)	number (units)	volume (mil. MDL)	number (units)	volume (mil. MDL)
Total transactions	20793		563.91		7395		4693.07	
regulated market	300		97.96		287		1930.3	
MTF	107		4.76		92		47.22	
outside the regulated market and MTF	20386		461.19		7016		2715.55	

The increase in the volume of transactions, simultaneously with the reduction of their number, accentuates the dominant position of transactions with large packages of shares, which outlines the situation of the capital market, characterized by a vulnerable factor: the concentration of majority shares in the ownership of a single person or group of people which work together.

In this context, it is imperative to point out that the high level of concentration of securities, the lack of diversity of available instruments, including bonds issued by local and corporate public authorities, in conjunction with the national specificity and ideology of individual business management demonstrates the current market demand.

Taking into account that the capital market infrastructure underwent some changes in 2019, with the opening (02.05.2019) of a new entity on the market – the Single Central Securities Depository, as a service provider of centralized records and settlement of securities, NCFM has amplified its activity of supervision and monitoring of transactions performed outside the regulated market and MTF, this being extended to the operations registered in the Single Central Depository Record System. The securities of 197 issuers are registered in the Single Central Depository System. At the same time, the task of the Single Central Depository is primarily to consolidate the functions of centralized records of shareholders' registers from current service providers (registry companies), with the final deadline – December 2022. Starting from the schedule drawn by Law No 234/2016[85] governing the activity of the Single Central Depository, as well as the agreements signed with the development partners, at the end of 2019 was concluded the first stage of

[85] https://www.legis.md/cautare/getResults?doc_id=98790&lang=ro

transmission to SCD of the registers of shareholders of the banks, insurance companies and issuers listed on the organized trading market. Certainly, this remodeling of the market infrastructure had an impact on the number of professional actors in the market, emphasizing a constant trend, decreasing in the last 2 years.

Another important element is represented by the process of assessing the shareholding quality of professional participants. In 2019, as part of this complex process, which involves a rigorous examination of the documents submitted for this purpose, NCFM adopted the decision authorizing the acquisition of the shares of JSC 'Stock Exchange of Moldova', in excess of 20% of its share capital by one of the investment companies.

From the perspective of protecting the national financial nonbanking system, as well as investors against unfair, abusive and fraudulent capital market practices, the activity of monitoring and control of capital market participants and, in this context, of transactions/operations conducted by these participants in the secondary market, represents the main pillar in achieving the basic objective of the NCFM – ensuring stability, security, transparency and prevention of systemic risks in this market segment, as well as those related to money laundering and terrorist financing.

Thus, in order to ensure the achievement of the objective of regulating and controlling the way of application and execution by market participants of legal measures to prevent and combat money laundering and terrorist financing, the activity of monitoring and control of NCFM is aimed at:

- ensuring compliance with the transparency responsibilities of licensed or authorized persons on the capital market (quarterly reporting), which they have in accordance with the legal provisions in force, including the timely submission to OPFML of the information on suspicious activities or transactions made in cash/by bank transfer that exceed the minimum value established by the regulatory documents;

- ensuring compliance with legal norms when carrying out professional activities, implicitly when registering transactions/operations with securities on the regulated market and MTF, as well as outside these markets, which is achieved by performing the complex control of the activity carried out by the market participant, in which are examined all the requirements established by the regulatory documents and for all operations/transactions registered in the period subject to verification, as well as through an extensive ex officio analysis of the documents that constituted the basis for the registration of transactions subject to verification by NCFM.

Taking into account the particularities of the domestic capital market, we have identified a number of criteria and risk factors, which should be considered in order to prevent money laundering actions, namely:

- the particularities of the customer database of the entities operating on the capital market, namely, whether it includes politically exposed persons, non-residents, legal entities with complex ownership structures, etc.;

- non-compliant application of know-your-customer rules, as well as failure to group them by associated risks,

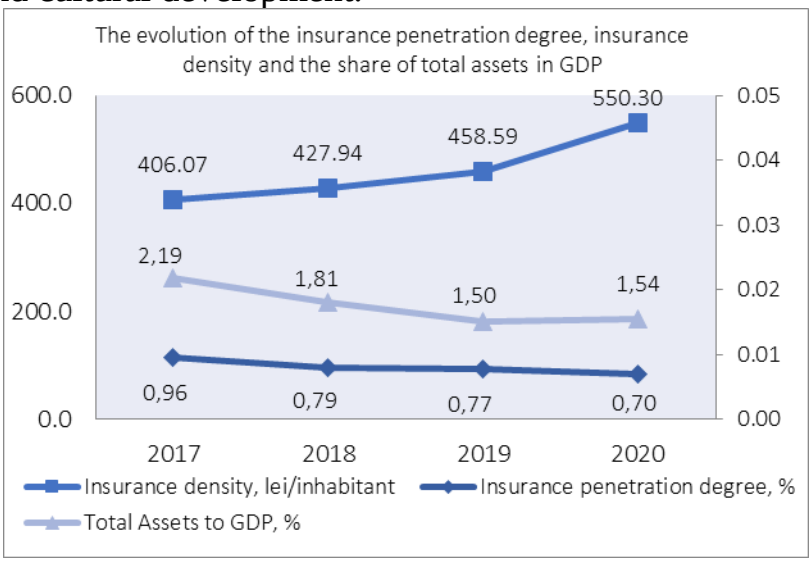
- lack of internal assessment of risks per entity, adjusted to the nature and complexity of company's activity.

In the context of the above, we may conclude an assessment of a medium risk, given that no risks were identified on the capital market, which would significantly affect the short-term activity of market participants and the capital market system as a whole, due to an intense dialogue with the market, as a result being clarified, within the limits of legal competence, a series of issues and created the premises for addressing non-compliant situations and/or identifying appropriate solutions.

6.2. Insurance sector

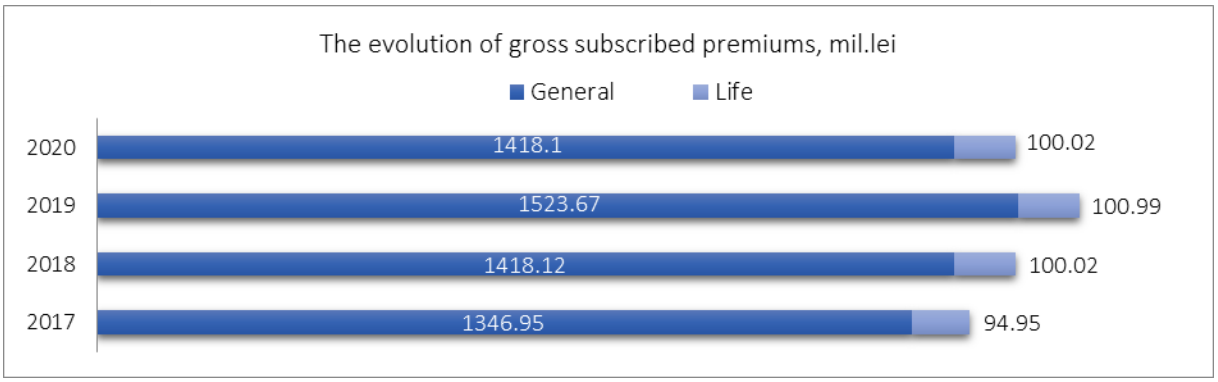
Insurance – field of financial intermediation – plays a distinct role in the financial market, implicitly in the national economy, with economic and social impact.

Thus, this sector is extremely complex, comprehensive and reaches every moment of human/social existence. And the evolution of (re)insurance represents a picture of economic, social and cultural development.



The density of the per capita insurance premium is an indicator that expresses the scale of the population's use of insurance products. In 2020, the premium was about 550.3 MDL per capita - an increase by 144.23 MDL in comparison with 2017. The degree of insurance penetration, expressed as ratio of gross premiums to GDP, accounted for 0.7%, attesting a reduction by 0.26 percentage points compared to 2017 (in the region's countries this indicator is 1-1.5%). This shows that the GDP growth rate has been higher than that of (re)insurance activity expansion, respectively it is summarized that the sector is not evolving 'in step' with the economy.

From the perspective of exposing by insurance categories, in the period 2017-2020 the market was characterized by a visible degree of focus on the general insurance segment.



In this regard, in 2020 the general insurance was 93.41% of the total value of gross premiums subscribed by the insurance companies, and the life insurance accounted for 6.5 %. During the same period, compulsory insurance accounted for 42.05% (MDL 683.10 million) of the total value of subscribed premiums, and optional insurance covered 57.95% (MDL 941.56 million) of the volume of gross subscribed premiums on the insurance market.

The gross subscribed premiums, that have been growing constantly in recent years, found a decline in 2020, especially those from sales of 'Green Card' certificates. Thus, 13 insurance companies (that held the license in 2020) subscribed gross premiums worth MDL 1,452.9 million, falling by MDL 171.8 million (10.57%) compared to the registered value in 2019 (MDL 1,624.7 million).

In 2020, 1,276,332 consumers benefited from insurance products based on contracts/insurance policies concluded with individuals and legal entities, decreasing by 543,881 policies compared to 2019. Out of the total number of policies, 1,273,984 policies were issued for general insurance, and 2,348 policies for life insurance. In 2019, 1,820,209 insurance policies were issued based on contracts concluded with individuals and legal entities, increasing by 84,172 policies compared to 2018. Out of the total number of policies, 1,817,507 policies were issued for general insurance, and 2,702 policies for life insurance.

The general insurance market continues to be prevailed by motor insurance (domestic compulsory civil-liability insurance - MTPL, Green Card and land vehicles insurance (CASCO)) that held supremacy in the consolidated market portfolio (2020) – 72.37% of the total value of gross subscribed premiums from general insurance (MDL 978.4 million), decreasing by 5.0 percentage points compared to 2019. In 2019 – 67.36% (1,026.37 million MDL) of the total value of gross subscribed premiums from general insurance (1,523.67 million MDL), decreasing by 2.93 percentage points compared to 2018.

The amendments and addenda to the regulatory framework have strengthened the insurance market and improved the financial soundness.

During 2017-2020, NCFM took regulatory and supervisory actions, such as the assessment of insurers, improvement of corporate governance framework, assurance of more precautionary risk management.

In order to enhance transparency, but also the policyholders' trust in insurance companies, the supervisory authority requires the application of established corporate governance principles through best practices. In this regard, significant changes have taken place in the corporate governance segment as well.

Through regulatory amendments and measures provided for, the supervisory authority aimed to identify early the main risk areas in the insurance companies' work by using a tool of proper assessment both of the quality of the corporate governance system as a whole and the individual activity of the persons in positions of accountability, by keeping records of their acts and deeds (conduct and behavior) and to make sure that there are appropriate measures to be applied for committed acts, and that these are established according to the acts' impact, risk, circumstances and repeatability.

Thus, by NCFM Decision No 17/3/2019[86], the Regulation on the Requirements to the Persons in Positions of Accountability of the Insurers/Reinsurers and insurance Intermediaries was updated, establishing criteria for the assessment of persons in positions of accountability aimed at qualification, experience, professional integrity and good reputation, as well as norms regarding the incompatibilities and restrictions of persons in positions of accountability for the performed activity, obligation to notify and report to the supervisory authority about any changes in the activity of persons in positions of accountability, and sanction for failure to comply with the Regulation's provisions.

It is important to mention the approval of the Regulation on the Audit of Insurers[87] (Reinsurers) in 2019. The regulation was intended to create an efficient regulatory framework for the conduct of insurer/reinsurer audit, to establish the audit committee's duties, functions and responsibilities, the requirements for audit entities and members of the audit team, including by setting requirements for carrying out the audits of financial statements and supervisory purposes. It also helps the audit entity approved by the supervisory authority to regulate the annual audit on the adequacy and implementation of the insurer's internal policies and procedures for preventing and fighting against money laundering and terrorist financing, as well as the analysis of transactions.

The Regulation on the Register of Insurance and Bancassurance Intermediaries (NCFM Decision No 21/3/2019[88]), attests the regulation of intermediary registration process by the supervisory authority and establishment of conditions, deadlines, registration method and process of insurance and bancassurance agents in the Register, which is an information system with all official data about insurance and bancassurance agents who carry out their professional activity on the insurance market.

[86] https://www.legis.md/cautare/getResults?doc_id=114310&lang=ro
[87] https://www.legis.md/cautare/getResults?doc_id=114529&lang=ro
[88] https://www.cnpf.md/storage/files/files/21_3%20din%2027_05_2019.pdf

Taking into account the risks implying reinsurance activity (especially - assigning reinsurance premiums to non-residents), the NCFM Decision No 17/6/2017[89] approved the Regulation on the Requirements to the Reinsurance Program of Insurers and Rules for Contracting Reinsurance (based on IAIS principle No 13 'Reinsurance and other forms of risk transfer'). The regulation establishes the supervisory authority's powers for assessing reinsurance policies and obliges the insurer to adopt and implement an efficient reinsurance program for each financial year, meeting the precautionary requirements, adapting to the risk profile, avoiding risk concentration. Additionally, following the conduct by the NCFM of an extensive procedure for identifying beneficial owners of shareholders who hold qualified stakes in insurance companies, the market players ensured the placement of information/data related to people identified on their own websites.

As a result of previously identified vulnerabilities in the national risk assessment on the non-transparency of insurance companies' shareholders, during 2017-2020, legislative amendments and addenda were approved setting out detailed regulations for cancellation process, issuance and sale of qualified stakes purchased and held without complying with the requirements regarding the quality of shareholding in the insurers' capital, procedure to apply restrictions on the rights of insurers' shareholders, including provisions according to which people bound by restrictive measures can no longer directly or indirectly hold new shares of insurers (reinsurers) (amendments to Article 29 of Law No 407/2006 on Insurance).

At the same time, in 2018, in order to improve the legal framework on the professional activity in the insurance field, norms were introduced (by amending the regulatory framework – Law No 273/2018[90] and NCFM Decision No 47/6/2018) regulating the licensing process of the insurance/reinsurance and insurance intermediation activity, as well as the control over the compliance by license holders with the licensing conditions and sanctioning measures application. Provisions were approved for establishing the special supervision procedure and regulation of actions of the supervisory authority and insurers, including the voluntary submission of license.

Given that there is only one insurance company operating on the market of the Republic of Moldova that subscribes life insurance risks, the money laundering risk due to the massive flows of funds associated with life insurance products is low, the company provides policies that are not very flexible, and the early termination may result in a decrease in the value of transferred amounts, respectively, the risk of withdrawing certain large amounts is minor. Other investment products that would offer the customers the opportunity to deposit and later withdraw large amounts with a relatively minor decrease in value are not available.

The criteria and risk factors identified in the field described are:

[89] https://www.cnpf.md/storage/files/files/hot_17_6.pdf
[90] https://www.legis.md/cautare/getResults?doc_id=113267&lang=ro

- The insurance company's management is responsible for the proper and efficient execution of programs for preventing and fighting against money laundering and terrorist financing. As a consequence, it is in charge of approving the program for compliance and employment/appointment of a person responsible of company's field. One factor which can generate risks of money laundering is the allocation of insufficient resources to prevent and fight against money laundering and terrorist financing, as well as the lack of proper supervision by management of the performance of company's employees' duties. In addition, the managers must make sure that the risk management, monitoring and other related activities are carried out in a coordinated and efficient manner.

- Proper application of know-your-customer rules. The insurance companies are obliged to implement procedures for identifying customers with whom they will establish business relationships. In this process, the collection of proper information about customer identification, as well as verification of accuracy of this data is carried out in a template, without any clear classification of customers by the risk they present.

- Risk assessment is the core of measures for preventing and fighting against money laundering and terrorist financing. Thus, the identification of internal risks per company, as well as proper classification of customers based on risk – subsequently determines the application of precautionary measures on customers. While customer's risk level is determined, the customer's activity line is an important factor that is not taken into account by insurance companies. Additionally, one vulnerable factor is the verification of sanctioning lists, quality of a politically exposed person, as well as negative media data, which is limited or not at all. In this context, the internal risk assessment is very important and it is to be properly conducted/reviewed and adjusted to the company's nature and complexity of the activity.

- Proper identification of legal entities, associations and foundations. The verification of owners and beneficial owners are also among insurance companies' duties which are to be streamlined.

Taking into consideration the above, as well as the assessment carried out both in terms of sectoral development (relatively small share of subscribed insurance premiums reported to GDP), limited range of products provided by insurance companies – most of them represent compulsory insurance stipulated by the law in force, and measure taken by the supervisory authority over the last 3 years, it is found that the insurance sector represents a medium-low risk of money laundering and terrorist financing.

6.4. Other financial institutions

6.4.1. Savings and Loan Associations

At the end of 2020, 228 SLAs were licensed to carry out their professional activity.

Following the analysis of the data presented, it is found that the share of loans given by SLAs in GDP did not change significantly during 2017-2020 and is 0.46% at the end of 2020. Nonetheless, the total value of assets per sector increased by about 5% compared to 2019 and reached MDL 1,115.33 million. The increase in assets is the result of a 2% growth in loans. Out of the total assets registered per system, about 88% belong to SLAs of category B which constitute only 64 entities, generating a capital of MDL 283.3 million, that represents 77% of the system capital.

According to the classification of loans provided by SLAs by strands of use, most loans were offered for consumption – MDL 332.7 million (34.7%), followed by loans for purchasing or constructing real estate – MDL 289.55 million (30.2%) and loans for agriculture – MDL 244.3 million (25.5%).

In 2020, due to the development partners' support, a number of SLAs were connected (legally and technically) to international remittance transfer services, so that people in rural areas (SLA members) can obtain transfers simply and efficiently. This tool allows to direct emigrants' remittances to the country's rural areas via SLA as a means of formalizing the remittance flows and encouraging the rural financial inclusion of remittance beneficiaries.

Creation and implementation of an electronic information system with a database on the storage, consolidation, analysis and monitoring of financial data enhanced the efficiency and optimized the process of consolidating and analyzing reports related to the nonbank financial sector. The output reports on data consolidation, specific analysis reports or ad-hoc upon request ones are obtained instantly, enhancing the efficiency of the ex officio monitoring process of reporting entities. Additionally, the risk-based supervisory information analytical module with early warning indicators for the SLA sector has been developed and is in the testing phase, which will allow real-time monitoring of possible risks produced by registered performance indicators. During 2020, 1,441 SLA reports were received and analyzed.

One important element in the supervisory authority's authorization included the assessment and confirmation of SLA management members and, namely people holding positions of members of the council and audit committee, executive directors, chief accountants, as well as manager of the branch/representative office. Following the examination of a large number of documents attesting the people's compliance with the requirements set out by the regulatory framework during 2019, 40 managers from the management structure of the SLA system were confirmed in position (the confirmation of 21 managing directors during 2020).

In this context, as a result of performed control, there is a series of gaps in the efficient implementation by SLAs of measures to prevent and fight against money laundering and terrorist financing, and namely: allocation of insufficient resources in this field; low efficiency in terms of application of requirements for identifying and reporting suspicious and limited transactions; lack of identification of PEPs and other high-risk customers, etc.

Nonetheless, the activity performance by the SLAs, provided services and products, work environment (especially the rural area), customers, applicable regulatory framework and other related factors, led to the identification of a low risk of money laundering and terrorist financing in this sector.

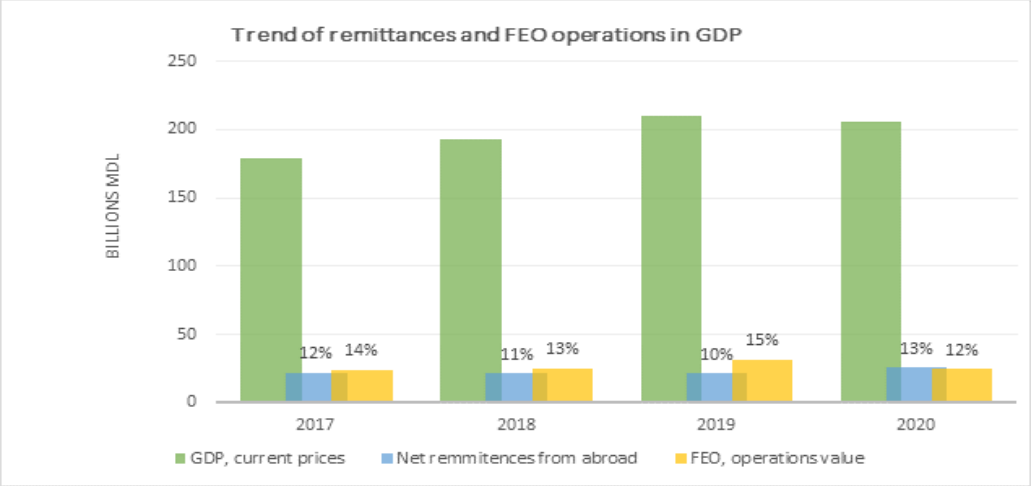
6.4.2. Foreign Exchange Offices

The service of cash currency exchange for individuals is a product offered by foreign exchange offices in the Republic of Moldova in accordance with the regulatory framework in force and implies transactions of foreign currency purchase and sale against national currency or another foreign currency and, where appropriate, purchase and sale of foreign currency checks.

Taking into consideration the statistical data reflected in the presented table, we note a massive external support for transactions of foreign currency purchase/sale carried out by the foreign exchange offices from remittances from abroad.

So, the large volume of remittances that imply, consistently, the need to carry out currency exchange, along with maintenance of a high degree of frequent cash use in the economic activity of the Republic of Moldova, resulted in a huge number of foreign exchange offices. Thus, as of 01.01.2020, there were 382 FEOs licensed by the NBM across the country, according to the law in force. The large number of foreign exchange offices on the market contributed to a tough competition between them in attracting customers, which resulted in a very small difference between the currency purchase and sale rates.

The total turnover of the transactions of foreign currency purchase/sale carried out during 2019 through FEOs was about MDL 31.6 billion, which constituted approximately 15% of the GDP volume for 2019, and for 2020 the total turnover of purchase/sale of foreign currency decreased by MDL 24.7 billion, which amounted to about 12% of the GDP volume. This share reflects a relatively medium volume of these transactions in the real sector of economy and, thus, shows a medium impact of this product/service on money laundering and terrorist financing.



At the same time, the impact of the currency exchange service provided by FEOs on the risk degree of money laundering and terrorist financing, is also determined by the customer risk profile, which is represented only by individuals. Concurrently, in terms of impact of the cash exchange service, it is important to note that during the period subject to assessment, the product availability via currency exchange machines, anonymously, was only in the initiation phase. Thus, during 2017-2019, out of the total number of foreign exchange transactions of over 8.5 million, less than 8 thousand were carried out via foreign currency exchange machines, and for 2020 out of the total number of transactions of over 5.4 million, about 2.2 thousand were performed via machines.

The FEO activity in the Republic of Moldova, as well as the method for carrying out cash currency exchange transactions, is regulated by more regulatory documents, and namely: The Law on Foreign Exchange Regulation No 62/2008, the Law on National Bank of Moldova No 548/1995, the Regulation on Activity of Foreign Exchange Units, approved by the NBM Executive Committee's Decision No 335/2016[91], the Regulation on Licensing, Control and Sanctioning of Foreign Exchange Units, approved by the NBM Executive Committee's Decision No 304/2016[92], the Regulation on Conditions and Conduct of Foreign Exchange Transactions, approved by the NBM Executive Committee's Decision No 29/2018[93].

At the same time, the regulatory framework of the FEO activities in terms of preventing and fighting against money laundering and terrorist financing is created by the Law No 308/2017 and the Regulation on Requirements for Preventing and Fighting Against Money Laundering and Terrorist Financing in the Activity of

[91] https://www.bnm.md/ro/content/regulamentul-privind-activitatea-unitatilor-de-schimb-valutar-aprobat-prin-hotarirea
[92] https://www.bnm.md/ro/content/hce-al-bnm-cu-privire-la-aprobarea-regulamentului-privind-licentierea-controlul-si
[93] https://www.bnm.md/ro/content/regulamentul-privind-conditiile-si-modul-de-efectuare-operatiunilor-valutare-aprobat-prin-0

Foreign Exchange Offices and Hotels, approved by the NBM Executive Committee's Decision No 201/2018[94].

In this way, the FEO in the Republic of Moldova works on the basis of a stable legal framework offering a wide range of adequate measures to prevent and fight against money laundering and terrorist financing.

Nonetheless, there are certain deficiencies that consolidate the regulatory framework on the following aspects:

- recommendations for the own program development to prevent and fight against money laundering and terrorist financing, including the organization, frequency and complexity of training on the risks of terrorist financing specific to the foreign currency exchange service;
- express provisions and guidelines on the implementation of mechanisms/instruments, including automated information systems to verify customer appointment in the list of sanctions, restrictions and/or prohibitions applied to certain people;
- special recommendations for FEOs to adequately implement requirements on the identification of complex and suspicious transactions or verification of transaction field etc.
- clear and complex guidelines including typologies of money laundering and terrorist financing specific to the FEO activities;
- provisions on the application of relevant measures to mitigate risks at the request of relevant authorities/institutions and reporting of these measures to the OPFML.

The deficiencies of the regulatory framework regarding the specific FEO obligations to comply with the requirements for preventing and fighting against money laundering and terrorist financing, are reflected in a number of gaps that are also identified after the NBM's field inspections, and namely: formality of internal programs in the field, failure to update them in accordance with the law in force; lack of the Registers of identified individuals; failure to identify politically exposed persons and other high-risk people, as well as sanctioned and restricted ones; lack of information systems for monitoring transactions and lack of mechanisms and indices to properly identify suspicious transactions; lack of reports' registers to be submitted to the OPFML; poor systems of data processing and storage; insufficient or poor quality training for employees responsible for preventing and fighting against money laundering and terrorist financing etc.

Following the MONEYVAL evaluation of the Republic of Moldova, the Evaluation Report revealed certain deficiencies related to the compliance of the cash foreign exchange service's sector, which refers to: failure to identify politically exposed persons or high-risk people, as well as sanctioned and restricted ones, lack of express provisions on the foreign exchange offices' obligation to take reasonable

[94] https://www.bnm.md/ro/content/regulamentul-cu-privire-la-cerintele-privind-prevenirea-si-combaterea-spalarii-banilor-si-0

measures for establishing the source of funds of the customers/real beneficiaries identified as politically exposed persons, failure to identify and report suspicious transactions and the quality of reports submitted by the OPFML, failure to diversify measures for managing risks of money laundering and terrorist financing, specific to the foreign currency exchange service, lack of certain detailed typologies of money laundering and terrorist financing and insufficient supervision actions on internal systems and processes for identification and justification of suspicions, poor systems of data collection and processing and insufficient detailed provisions related to the obligations to store the customer data etc.

In conclusion, we note that the activities carried out in order to identify and assess the cash foreign exchange service's vulnerabilities were based on both information specific to the entire assessed sector and quantitatively limited information, being accumulated from a sample of entities that at the end of the assessment period registered a turnover of about 45% of the total transactions of foreign currency exchange performed in this sector. Although, the quality of analyzed information was sometimes insufficient, the applicable regulatory framework, the activity performance by the respective financial institutions, the provided services and products, the work environment, the customers and other related factors, as well as the used supervisory practices, led to the identification, in general, of a medium-high risk of money laundering and terrorist financing associated with the activities of the given entities.

6.4.3. Nonbank financial companies

The expansion of the nonbank financial sector, which used to be supervised in a non-prudential manner, quantified its weaknesses, vulnerabilities, and indisputably the regulator – in cooperation with development partners – managed to identify solutions to the related risks. The new legal requirements need to be accompanied by a comprehensive implementation, so that market participants are focused on compliance with supervisory requirements, and consumers benefit from quality services.

The nonbank financial sector continued to assert itself, both in terms of growing trends in supporting certain fields of economy, and as an essential link for financial intermediation within the overall financial system. Thus, in 2020, the loan stock provided by the sector in GDP was 4.66%. The significant growth rate of loans granted by NBFCs is also due to the inclusion of financial leasing activities (2019) in the statistics (totals) reported for the NBFC segment (financial leasing accounting for 16.0% of all nonbank lending activities).

The value of assets held by nonbank financial companies has maintained a positive trend over the past years. At the end of 2019, the sector's assets amounted to MDL 10,737 million, with an annual growth rate of about 35.0%. The efficiency of assets and equity resulted in a rate of return of about 27.85%.

The NBFC equity kept on increasing, by 11.78% in 2020, while being affected by a significant decrease in net profit of about 47.7% compared to 2019 (due to the proper establishment of provisions for loss of assets). These negative changes were assimilated by the increase in the minimum share capital by 35.0% compared to previous year (requirements provided for in the new legal framework).

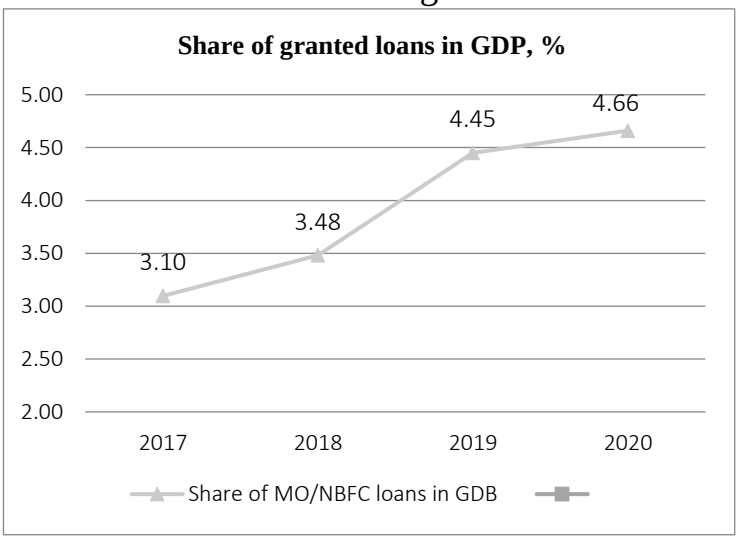
The activity of licensing/endorsement carried out during 2019 - 2020 in the nonbank financial sector is the first link of a complex monitoring process, expressed by identifying and determining the participants' access to this market under the law. The activity in this matter consisted in analyzing the applications submitted by the entities in the field and the accompanying documents, in verifying the conditions, criteria and observance of the legal provisions in force.

In this context, during 2019 - 2020, nonbank financial companies continued their alignment to Law No 1/2018[95] and the secondary regulatory framework (Regulation on the Endorsement and Registration of Nonbank Financial Companies in the Register of Authorized Nonbank Financial Companies and the Regulation on Transparent Ownership of Nonbank Financial Companies, approved by NCFM Decision No 41/4/2018[96]). This process was measured by:

- endorsing the NBFC state registration following the submission of applications for establishment, reorganization and suspension of activity;
- entering in the NBFC Register, after the notification.

Thus, in 2020, NCFM endorsed the state registration of 10 NBFCs; liquidation of 3 NBFCs; reorganization through merger (absorption) of 2 NBFCs. In addition, 13 NBFCs were notified and recorded in the Register of Authorized Nonbank Financial Companies, 1 NBFC resumed its work, 14 NBFCs suspended their work and made the relevant entries in the Register, and 13 NBFCs were removed from the Register of Authorized Nonbank Financial Companies.

In 2019, 167 NBFCs were notified and entered in the Register. At the same time, out of the 167 NBFCs registered, 1 NBFC was removed from the Register upon its request and 1 NBFC initiated the liquidation procedure.



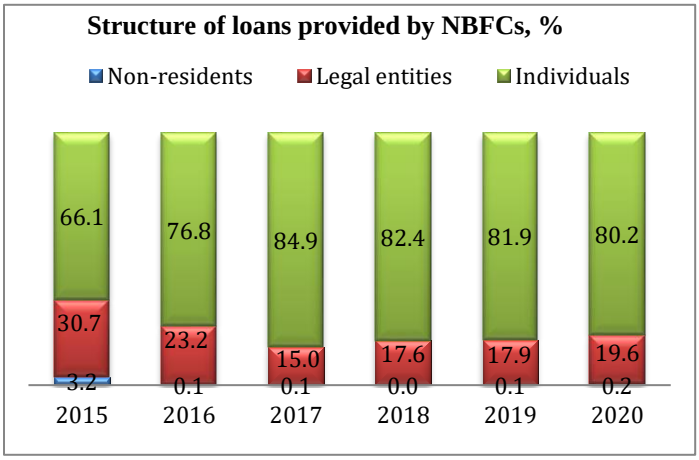
One more NCFM consistent activity is to continuously update the information in the Register. The register is structured in several sections, including identification data of the NBFC, managing directors, holders, beneficial owners, etc. In 2019, the NCFM

[95] https://www.legis.md/cautare/getResults?doc_id=105391&lang=ro
[96] http://old.cnpf.md/file/BazaNormativa/acte_legis_normat/2018/AEI/hot_41_4.pdf

reviewed 83 applications to update the Register's data. In 2020, the Regulator managed 218 applications to update the Register's data.

The Register's public information is available on the NCFM website.

The NBFC loan stock is dominated by individual loan (over 80%), to the detriment of corporate ones (about 20%). This trend is becoming more obvious, growing by over 20% in the last 5 years, involving close monitoring, given the higher credit risk associated with consumer loans.



The recipient determines the segregation by directions of loan use. Thus, more than 40% are used for consumption, real estate loans – approximately 10%, and agriculture – about 10%.

According to the first national assessment of risks related to money laundering and terrorist financing, in this case the microfinance institutions, the lack of a supervisory authority also strongly affected the analyzed factors, such as, identification of customers, beneficial owners and high-risk customers, increased application of precautionary measures.

Subsequently, there are a number of related deficiencies, emphasizing the allocation of insufficient resources in order to monitor the mentioned activities, the need for qualified specialists to carry out efficient supervision, as well as the identification of risks in this field.

The approval and subsequent implementation of Law No 1/2018 on Nonbank Financial Companies, for the first time provided the nonbank supervisory authority with an incipient (minimum) regulatory and supervisory framework for microfinance activities and financial leasing. Thus, in order to develop the nonbank financial sector, this law (Article 1) aims at regulating conditions to ensure access to nonbank lending, establishing the legal status and peculiarities of NBFC incorporation and activity, ensuring conditions to protect the rights and interests of creditors, donors, customers, as well as founders, shareholders and associates of NBFCs.

The supervision started on 01.04.2019 by identifying all entities that practice nonbank financial activity (provision of loans and leasing services), according to the activities stipulated in their articles of incorporation/their statutes and compliance with Article 8 of Law No 1/2018. A NBFC has the right to carry out professionally only nonbank lending activities, considering the cases where the obtained revenues represent at least 15% of the total revenues of an entity during a reporting period. In this sense, the Public Services Agency presented the data related to 1,000 entities in order to identify organizations that should comply with the new legal framework.

Note that the notification and registration (in Register) identified a number of microfinance organizations/NBFCs that failed to get registered (the deadline is 31 March 2019), hence not being entitled to perform the specified activities. Subsequently, the NCFM took the necessary measures according to the applicable procedures and instruments as per Law No 1/2018, and notified other relevant authorities about the required measures.

The registration process (in Register) implied the review of a set of documents confirming the compliance of NBFC with legal requirements, especially: the requirements established for managing directors and founders (Article 12 of Law No 1/2018), the ownership of the minimum initial share capital (Article 17 of Law No 1/2018), development and approval of internal regulations on service provision, activity management framework and mechanisms to settle customer complaints (Article 5 of Law No 1/2018), transparent NBFC ownership structure and updated information about founders (beneficial owners) etc.

As a result, all NBFCs' beneficial owners who hold at least 1% of the share capital or voting rights were identified. This process was carried out, as appropriate, with the help of the OPFML, collecting and submitting full relevant data to this authority.

To summarize, the legal framework related to NBFC regulation and supervision currently offers the supervisory authority a relevant range of instruments to supervise and protect the consumers of financial services.

Thus, during the process, initiated on 01.04.2019, for the compliance of new entities – NBFCs with Law No 308/2017, the supervisory authority found criteria and factors related to risks of money laundering and terrorist financing, specifying the following:

- lack of comprehensive information about legal compliance, taking into account the NBFC priorities related to (re-)registration and compliance with 'market entry' requirements (e.g., share capital, requirements to managing directors, etc.);
- insufficient knowledge of NBFC employees in preventing and fighting money laundering;
- difficulty to apply know-your-customer rules, collect sufficient data on identification of customers, without classifying them according to the associated risks;
- lack of internal assessment of risks per entity, adjusted to the nature and complexity of company's activity;
- lack of 'dissuasive' instruments for NBFCs in case of violation of legal and regulatory acts.

Review of the NBFC activity, services and products, customers (residents, mainly individuals), applicable regulatory framework and other related factors identified a medium-high risk of money laundering and terrorist financing in the NBFC sector.

6.4.5. Nonbank payment service providers

The activity of nonbank payment service providers, and especially of payment companies, electronic money issuers and providers of postal services is regulated by Law No 114/2012[97] on Payment Services and Electronic Money, Law No 36/2016[98] of postal communications and other regulatory acts.

The supervision and regulation requirements for nonbank payment service providers in terms of preventing and fighting against money laundering and terrorist financing were reviewed and amended, following the approval of Law No 308/2017. At the same time, all activities aimed at identifying risks of money laundering and terrorist financing, to which services and products provided by the given institutions are subjected, did not encounter quantitative data limitations. However, in some cases, not all presented information was of good quality, which influenced the performed analysis. Nonetheless, the activity performance by the respective institutions, the provided services and products, the work environment, the customers, the applicable regulatory framework and other related factors, as well as the used supervisory practices, led to the identification, in general, of a medium risk of money laundering and terrorist financing associated with the nonbank payment service providers' activity.

It should be mentioned that as of 2020, 7 nonbank payment service providers were licensed by the NBM, of which:

- 5 e-money issuers (4 active),
- 1 payment company,
- 1 provider of postal services.

The Nonbank payment service providers' services are:

- Deposit/withdrawal from a payment account and all operations required for the payment account's functionality;
- Remittances through international money remittance systems and electronic postal mandates;
- Payments for services: housing, non-housing, public utilities, various services via payment terminals in cash, (cash-in), other devices or portals of nonbank providers (official websites).

The frequent and wide use of cash in the economy of the Republic of Moldova essentially contributes to the increase in payments through nonbank payment service providers, who have cumulatively amounted, in the analyzed period (2017-2020), to around MDL 18.9 billion or 9.4% of GDP (a considerable decrease compared to the assessment data of 2017 by 7.1 percentage points).

We note that, taking into consideration statistical data, 84.7% of the volume of transactions belong to only one provider, namely, Poșta Moldovei. This figure reveals a medium influence of this product in the money laundering and terrorist

[97] https://www.legis.md/cautare/getResults?doc_id=110338&lang=ro
[98] https://www.legis.md/cautare/getResults?doc_id=121211&lang=ro

financing activities associated with this sector. This influence can also be deduced from the customer's risk profile, which mostly consists of resident individuals.

Also, we should emphasize that the products/services exposed to a high risk of money laundering and terrorist financing identified in the process of analysis are: betting/gambling services; anonymous e-money-based services; virtual currency transaction services; supply of an e-wallet to third parties whose identity is unknown to the provider.

The nonbank payment service providers in the Republic of Moldova follow sufficiently the legal framework in order to apply appropriate measures of preventing and fighting against money laundering and terrorist financing, but there are certain gaps to be eliminated, and namely:

- Existence of exceptions to the application of customer precautionary requirements, contrary to international standards and practices;
- Lack of specific recommendations that nonbank payment service providers would take into account when developing and approving their own programs to prevent and fight against money laundering and terrorist financing are (approach based on risk, payment monitoring, etc.);
- Lack of mechanisms and practices to apply the risk-based approach;
- Lack of adequate policies to prevent the misuse of new technologies;
- Lack of 'warning signals' related to money laundering and terrorist financing, etc.

In these conditions, there is a series of deficiencies in the activity of nonbank payment service providers for efficiently implementing measures to prevent and fight against money laundering and terrorist financing, and namely: low efficiency in terms of application of requirements for identifying and reporting suspicious transactions; lack of resources for needs in this field; low efficiency in terms of application of requirements for identifying customers; lack of a system to monitor payments properly; failure to identify politically exposed persons and other high-risk people, as well as sanctioned and restricted ones, lack of training for employees of the given institutions, etc.

The above mentioned deficiencies were found following the field controls carried out in accordance with the NBM powers, such as: lack of proper policies and procedures to prevent and fight against money laundering and terrorist financing; lack of transactions reported to the competent body; failure to identify high-risk people; failure to verify beneficial owners to certain customers, etc.

Also, in terms of the board supervising nonbank payment service providers, the working group emphasized the need to develop risk-based supervisory practices and methods and employees' skills and knowledge that are also related to typoligies of money laundering and terrorist financing.

According to the MONEYVAL Cmmittee's Evaluation Report, there are gaps related to legal framework on the nonbank payment service providers' activity. At the same time, the experts also found a range of deficiencies such as:

- limited risk awareness of terrorist financing faced by the sector;
- misuse of services of the nonbank payment service providers for the drug trade was identified as having the highest risk of money laundering;
- lack of full understanding of nonbank payment service providers' obligations in the sanctions regime;
- lack of customized training to enhance the awareness among employees in this field.

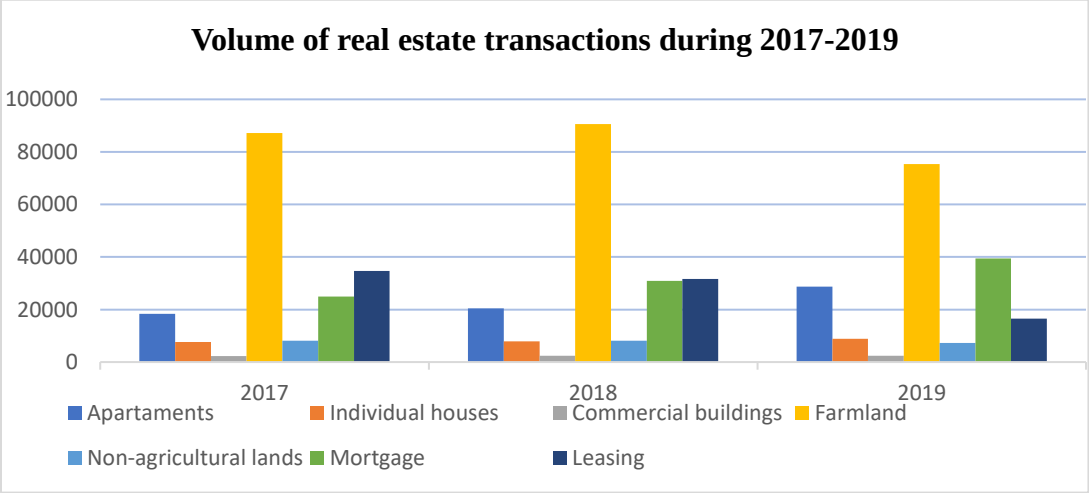
Accordingly, following the risk factor analysis, a medium risk is identified in this sector.

6.4.6. Real estate agents

Following the analysis carried out for 2017-2020, in the field of real estate market, it was established that the sector's trend is growing, registering about 125 real estate agencies throughout the Republic of Moldova.

Thus, the volume of real estate transactions during 2017-2019 reached a high record for the Republic of Moldova, being represented as follows:

- apartments - 67,503;
- private houses - 24,420;
- agricultural fields - 253,034;
- non-agricultural fields - 23,647;
- mortgage - 95,339;
- lease - 82,781;



It should be noted that in the respective period, real estate in volume of 95,339 was purchased on the basis of mortgage loans provided by commercial banks in the Republic of Moldova, which over the last two-three years focused on lending to individuals, especially by offering real estate loans.

Consequently, bank loans increased in two years by over 100% - from MDL 3.2 billion in 2017 to about MDL 7 billion in 2019.

With reference to the legal framework, it is found the lack of special legislation that would regulate and monitor the real estate field.

In the light of Law No 308/2017, according to Article 4(1) (e), the real estate agents are supervised only by the OPFML.

The activity procedure of real estate agents, and namely: the registration and performance of real estate purchase/sale transactions, the intermediation of leasing operations and the way of receiving deposit is provided for in the civil legislation of the Republic of Moldova.

To be emphasized that, according to the procedure of registering the property following the contract of purchase/sale carried out with real estate, it is required the compulsory notarial authentication. Due to the lack of notarial authentication, there is no way to register the ownership of real estate, so any real estate transaction which is carried out directly by the resident or non-resident individual or legal entity with the construction company, local public authority or through real estate agency is performed with the notarized notification and reported to the OPFML.

It should be noted that, according to the provisions of Article 22 of Law No 81/2004[99] on Investment in the Entrepreneurial Activity, the agricultural land cannot be given to non-residents, thus the external threat is low.

The big number of real estate agents and the increasing volume of purchase-sale transactions carried out mostly in cash, exposes the sector to a medium risk.

From the point of view of preventing and fighting against money laundering and terrorist financing, the real estate agents gained the status of reporting entities along with the entry into force of Law No 190/2007[100]on Prevention and Fight against Money Laundering and Terrorist Financing which during 2007-2017 used to represent the general legal and institutional framework in the field. Nonetheless, the mentioned document did not expressly establish which institution is responsible for supervision of this sector and respectively the provisions of this law and relevant secondary regulatory framework were not applied and implemented by the real estate agents who were not de facto a component part of the national regime of prevention and fight against terrorist financing. This situation was improved along with the approval of Law No 308/2017, which expressly provides that OPFML is the authority in charge of regulating and monitoring the real estate agents' sector in terms of preventing and fighting against money laundering and terrorist financing. Taking into account that Law No 308/2017 provided for a 6 month grace period for entities to adopt acts, regulations, guidelines required for the implementation of this law, de facto the real estate agents became subjects of the regime reporting transactions only starting with 24.08.2018.

Compared to the previous period (2013-2015), the OPFML became a supervisory authority for real estate agents in compliance with the Law No 308/2017 De facto, the real estate agents have been reporting transactions to OPFML since

[99] https://www.legis.md/cautare/getResults?doc_id=27421&lang=ro
[100] https://www.legis.md/cautare/getResults?doc_id=24268&lang=ro#

early 2018 after the entry into force of the Regulation on the Application of Requirements for Preventing and Fighting against Money Laundering and Terrorist Financing by real estate agents.

Following the analysis on implementing by real estate agents legal provisions to prevent and fight against money laundering and terrorist financing, a range of gaps were identified:

- lack of a specialized regulatory and institutional framework which would regulate and supervise the real estate agents' activity;
- failure to identify and report transactions by certain real estate agents;
- lack of qualified staff able to execute the legal provisions on the application of precautionary measures against customers;
- failure to comply with own programs for preventing and fighting against money laundering and terrorist financing;
- lack of internal risk assessment and failure to apply the risk-based approach;
- failure to identify the sources of funds related to intermediary transactions;

Note that an important factor determining the vulnerability level is the facilitation by real estate agents of money laundering phenomenon in relation to certain customers, by consulting them on the presentation of fake information about their funds and beneficial owners.

The activity performance by real estate agents, the provided services and products, the work environment, the customers, the applicable regulatory framework, the attractiveness of real estate agents to be used for money laundering and/or terrorist financing and other related factors, such as the volume and value of transactions, as well as the share of the given sector with regards to the national economy, led to the identification, in general, of a medium risk of money laundering and terrorist financing associated with the real estate agents' activity.

6.4.7. Auditors

The field of auditor is legally included in the provisions of Law No 61/2007[101] on Audit Activity, the auditor's Code of Conduct, other laws regulating the activity of auditor, as well as the international treaties to which the Republic of Moldova is part.

On 01.01.2017, there were 297 active auditors in the country. 259 auditors directly carry out the audit activity within the audit companies, individual entrepreneurial auditors.

According to the Article 4(1) (k) of Law No 308/2017, the audit entities, legal entities and individual entrepreneurial companies providing accounting services are reporting entities that fall under the scope of the mentioned law.

At the same time, the Article 15(1) (e) of Law No 308/2017 establishes the Ministry of Finance as a supervisory body of the audit entities, which is contrary to

[101] https://www.legis.md/cautare/getResults?doc_id=95233&lang=ro

the provisions of the Article 36(1) of Law No 271/2017[102] on the Audit of Financial Statements, that stipulates that the supervisory board of the audit is the Public Audit Oversight Board.

At present, the supervisory activity is insured by the Public Audit Oversight Board, thus including the respective amendments in the draft amendment to Law No 308/2017.

The relevant associations include ACAP (Association of Professional Accountants and Auditors) and AFAM (Association of Auditors and Audit Firms of Moldova).

In order to implement the law on prevention and fight against money laundering and terrorist financing, the Ministry of Finance approved Order No 63/2009[103] approving the Methodical Indications regarding the application by the audit companies and individual entrepreneurial auditors of measures to prevent and fight against money laundering and terrorist financing (with subsequent addenda and amendments).

The audit activity is not licensed. The Public Audit Oversight Board is entitled to update and register the list in the Public Register of Audit Entities.

As of 01.01.2020, 107 audit entities were registered.

In compliance with Article 32 of Law on Accounting and Financial Reporting No 287/2017[104], there are financial statements subject to the audit as follows:

a) the individual financial statements of large and medium-sized entities, public interest entities and other entities, according to the law in force;

b) the consolidated financial statements of groups.

For 2019, only 56 out of 101 audit entities had contracts and carried out audit on companies. The remaining ones provided related services: accounting, taxation, analysis, expertise and forecast etc.

For the period 01.01.2017 – 01.01.2020, 3 suspicious activities were reported by auditors to the OPFML in accordance with Article 11 of Law No 308/2017, being manifested through:

- the identification of the trend by which non-resident individuals, especially those from Ukraine, register companies in the Republic of Moldova along with opening of bank accounts with the country's financial institutions and carry out authorized transactions to foreign partners from off-shore areas. Therefore, the notification by the OPFML of the financial institution about the possibility to apply the provisions of Article 5(3) of Law No 308/2017, including the prohibition to perform activities and transactions, establish or end business relationships and submit the information to the OPFML in compliance with the legal provisions.
- identification of the transit of funds via a foundation (entitled to receive donations) set up in the Republic of Moldova, so that the money are received from

[102] https://www.legis.md/cautare/getResults?doc_id=110387&lang=ro
[103] https://www.legis.md/cautare/getResults?doc_id=112344&lang=ro
[104] https://www.legis.md/cautare/getResults?doc_id=120938&lang=ro

the accounts of Trust for regional cooperation (declared undesirable by the Russian Federation's authorities) and redirected to nonprofit associations, including from Russian Federation (Chechnya, Dagestan, Ingushetia). The collected materials were submitted to the Intelligence and Security Service.

- the identification of high suspicion transactions with a company whose activity type is the trade of oil products. Thus, the decision makers tarnished the State Budget in large proportions, concluding leasing contracts, financial and loan leasing.

According to the information submitted to the Public Audit Oversight Board, the risk assessment procedures related to transactions of money laundering and terrorist financing are applied along with the standard professional procedures established by the International Auditing Standards. The type of the assessed risk regarding the transactions of money laundering and terrorist financing is assessed based on the size of the audit entities and audited entity as normal or high.

According to the Regulation's provisions on the external control of the audit quality, approved by the Audit Oversight Committee's Decision No 17/2019, the external control to audit entities is performed in order to ascertain the existence of policies and procedures to control the audit quality applied at the level of audit firm entity and audit engagement, as well as to verify, within the limit of its power, the way in which the audit entities observe the provisions of Law No 271/2017 on the Audit of Financial Statements, International Auditing Service, Code of Ethics of the Professional Accountants and other regulatory documents related to the audit.

In compliance with Article 5 of Law No 271/2017 on the Audit of Financial Statements and Chapter VII of the Regulation on the Certification of Auditors, approved by the Public Audit Oversight Committee's Decision No 14/2019, the auditors carry out continuous professional training annually.

The precautionary requirements to auditors regarding the prevention and fight against money laundering and terrorist financing consist of approved regulatory framework, especially the Law No 308/2017 and related regulations.

Following the analysis on implementing by auditors legal provisions to prevent and fight against money laundering and terrorist financing, the following gaps were identified:

- low level of identifying/reporting suspicious transactions;

- failure to access information about beneficial owner of non-resident legal entities;

- lack of auditors' resources to enforce the legal provisions on the identification of politically exposed persons and beneficial owner;

- lack of necessary training to enforce the legal provisions on the application of precautionary measures against customers.

The manner in which the reporting entities carry out their audit activity, provided services and products, work environment, customers, applicable regulatory

framework and other related factors, led to the identification of a medium risk of money laundering and terrorist financing associated with the sector's activity.

6.4.8. Lawyers

The lawyer's activity relies on the Constitution of the Republic of Moldova, Law No 1260/2002[105] on the Legal Profession, other laws regulating the lawyer's activity, as well as the international treaties to which the Republic of Moldova is part.

The only act authorizing the admission as a lawyer and confirming the lawyer's status is the license to practice the profession of lawyer, which is issued by the Ministry of Justice in accordance with the Law on the Legal Profession.

Lawyers work in regional bars. The number of bars in the Republic of Moldova corresponds to the number of courts of appeal. Thus, those 4 bars are located in Chisinau, Balti, Cahul and Comrat. The largest bar is in Chisinau. The members of bars in the Republic of Moldova compose the Moldovan Bar Association.

The management bodies of the Bar Association are:

a) Congress;
b) Bar Council;
c) President of Bar Association;
d) General Secretary of Bar Association.

The Bar Association is composed of:

a) Licensing Commission of Lawyers;
b) Commission on Ethics and Discipline;
c) Auditing Commission;
d) Secretariat.

The conditions of the lawyer's activity, organization forms of the legal profession, types of qualified legal assistance, guarantees for qualified legal assistance and process of entering the legal profession are regulated by Law No 1260/2002 on the Legal Profession and Law No 302/2011 on the Status of Legal Profession[106], approved by the Bar Association.

The continuous professional training is conducted within the Bar Association, bars and forms of profession practice and aims at fulfilling the obligation by lawyers of continuous professional training based on quality legal culture and thorough training for the proper performance of public interest activities in terms of protecting the people's legal rights and interests.

The Commission on Ethics and Discipline is the only disciplinary body of the Bar Association in the Republic of Moldova, which examines disciplinary violations regarding the non-fulfilment of the lawyer's professional obligations.

[105] https://www.legis.md/cautare/getResults?doc_id=122745&lang=ru
[106] https://www.legis.md/cautare/getResults?doc_id=86850&lang=ro

Thus, the Commission on Ethics and Discipline applied 21 disciplinary sanctions in 2017, 16 in 2018 and 13 in 2019. It should be noted that, for the evaluation period, the disciplinary sanctions were not applied due to the failure to comply with the legislation's provisions in terms of preventing and fighting against money laundering and terrorist financing.

Licensing Commission of Lawyers:

1. adopts decisions on the admission to examinations;

2. organizes examinations for internship and qualification admission;

3. approves the results of internship admission examinations and adopts decisions on the admission to professional internship;

4. approves the results of the qualification examinations and adopts decisions on the admission to professional practice. The Licensing Commission issues decisions on trainee lawyer's inclusion for qualification examination based on the evaluation of their professional training activity. The Licensing Commission' decisions on legal profession can be challenged in administrative litigation.

During 2017-2019, the Licensing Commission admitted 410 lawyers (in 2017 – 126, 2018 – 133 and 2019 – 151).

The lawyers provide qualified legal assistance to individuals and legal entities by consulting and explaining the preparation of legal documents, representing the interests in the court, as well as to other public authorities, individuals and legal entities. During the evaluation period, around 2000 lawyers worked annually and according to official data, the annual number varies depending on the number of requests for activity suspension, 2003 lawyers in 2017, 2016 in 2018 and 1934 lawyers in 2019.

Unlike other European countries, the professional liability insurance for the lawyers in the Republic of Moldova is not mandatory. This does not mean that the lawyers in the Republic of Moldova do not optionally provide insurance of customers' risks for occurrence of professional errors.

The precautionary requirements to lawyers regarding the prevention and fight against money laundering and terrorist financing are established in the approved regulatory framework, especially the Law No 308/2017 and related regulations, approved by the Bar Association.

However, there are certain gaps, and namely:

- lack of an approach adjusted to the field of law in order to regulate and control the execution of legal provisions on identifying politically exposed persons and beneficial owners, implementing own programs for prevention and fight against money laundering and terrorist financing;
- failure to identify and report suspicious transactions;
- difficulties to identify the source of funds related to transactions.

The conduct of legal activities, provided services and products, work environment, customers, applicable regulatory framework and other related factors,

led to the identification of a medium-high risk of money laundering and terrorist financing associated with the sector's activity.

6.4.9. Dealers in precious metals and stones

The entrepreneurial activity in the field of precious metals and stones is carried out based on licenses issued under the Law No 160/2011[107] on the Regulation by Authorizing the Entrepreneurial Activity, as well as the Law No 282/2004[108] on the Regime of Precious Metals and Stones.

Activities with precious metals and stones include:

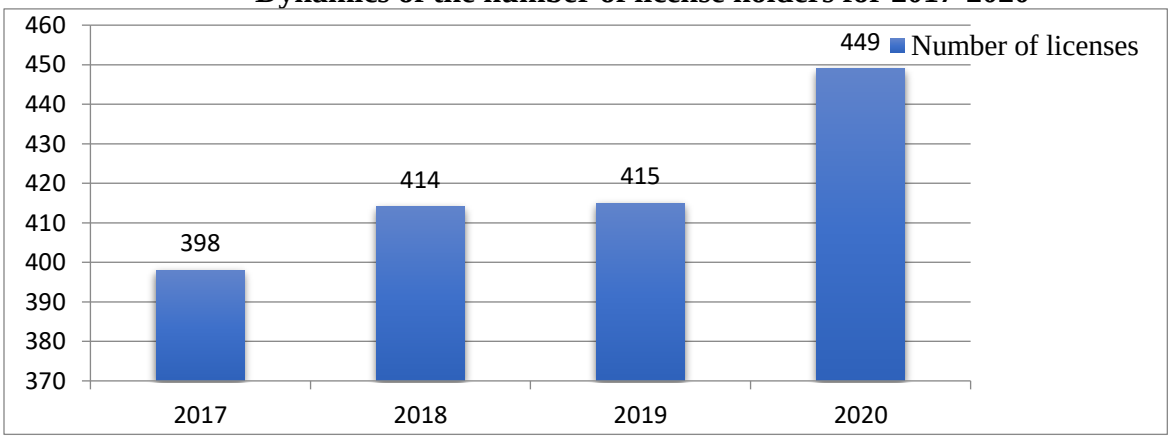
a) trading in articles of precious metals and stones;
b) manufacture and repair (restoration) of articles of precious metals and stones;
c) faceting of precious stones;
d) acquisition from the population of precious metals and stones incorporated in articles and scrap;
e) collection and processing of waste and scrap containing precious metals;
f) pawnshop with pawning of articles of precious metals and stones.

Marking and sale of articles of precious metals and stones is conducted only if there are:

- payment documents confirming the acquisition of excise duty (provision valid until 31.12.2017);
- documents confirming the source of articles of precious metals;
- confirmation of customs clearance (customs declaration).

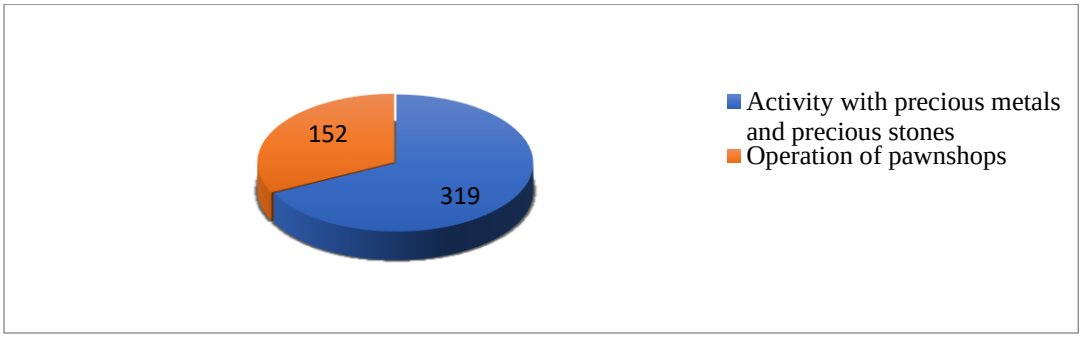
Trading in articles of precious metals and stones is regulated by Government Decision No 261/1996[109] approving Rules for retail trade, reception, storage and record of articles of precious metals and stones.

Dynamics of the number of license holders for 2017-2020



[107] https://www.legis.md/cautare/getResults?doc_id=117045&lang=ro
[108] https://www.legis.md/cautare/getResults?doc_id=27072&lang=ro
[109] https://www.legis.md/cautare/getResults?doc_id=113331&lang=ro

In this period, there is a continuous increase in the number of license holders. Number of license holders by type of activity:



According to the data from the Register of Public Services Agency, as of 31.12.2019, 471 license holders registered to practice 'activity with precious metals and stones; operation of pawnshop', out of which 319 holders practice the activity with precious metals and stones, and 152 holders operate as pawnshops.

The sector accounts for around 0.70% of GDP.

Reporting year	Turnover, MDL thousand	Amounts collected at NPB, MDL thousand	Number of performed controls	Calculated fines
2017	1,351,794.2	136,409.6	11	
2018	1,398,013.2	135,992.4	-	-
2019	1,455,044.8	137,749.1	-	-
2020	1,351,794.2	136,409.6	11	

To mention, there were no suspicious transactions reported in 2017-2020 by holders practicing the activity with precious metals and stones.

Non-resident customers, politically exposed persons in high-risk jurisdictions, customers with business connections in high-risk jurisdictions have a small share of customers who would use the services of individuals and legal entities practicing activities with precious metals and stones.

Despite the approved regulatory framework for preventing and fighting against money laundering and terrorist financing, there are difficulties in implementing and ensuring observance of these regulatory documents.

The supervisory board of the reporting entities engaged in activities with precious metals and stones, without being entitled to control in the light of Law No 131/2012, verifies ex officio the compliance with the regulatory documents in terms of preventing and fighting against money laundering and terrorist financing. At the request of the State Chamber for Marking Surveillance, only 23% of reporting entities provided evidence of compliance with the legal provisions on preventing and fighting against money laundering and terrorist financing (policies, own developed programs, appointed responsible persons, identified risks).

The manner in which the reporting entities perform their activities with precious metals and stones, provided services and products, customers, applicable regulatory framework and other related factors, led to the identification of a medium risk of money laundering and terrorist financing associated with the sector's activity.

6.4.10. Notaries

The notarial activity focuses on the category of professions, for the exercise of which it is required a license. The Republic of Moldova has a complex legal and regulatory framework regarding the admission to the profession of notary. This profession is regulated by both Law No 69/2016[110] on the Organization of Notarial Activities and regulations approved by the Ministry of Justice.

The notaries' duties consist of legal obligation to annually increase the professional level in educational institutions or training courses with a total length of at least 40 academic hours.

During the reference period, 23 licenses were issued to perform notarial activities. Also, 5 notaries suspended and other 11 ceased their notarial activity during the same period. The reasons for the suspension and cease of their activity are not related to the non-compliance with the means of control in the field of preventing and fighting against money laundering and terrorist financing.

The Republic of Moldova has a complex legal framework for notaries, which is adjusted to the international provisions on the prevention and fight against money laundering and terrorist financing, as well as a wide range of administrative sanctions in case of non-observance of legal requirements for preventing and fighting against money laundering and terrorist financing. The legal framework is supplemented with regulations developed by the Notary Chamber as a body in charge of notary supervision.

Given the profession specificity, in most cases, the notary fulfils, on its own, duties in the field of preventing and fighting against money laundering and terrorist financing, such as: the establishment of customer's identity and questionnaire, the identification of beneficial owners, the continuous monitoring of notarial acts, actions and procedures, the risk assessment of money laundering and terrorist financing in the field of activity, record and storage of information, identification and reporting of suspicious activities and transactions.

When employing staff, notaries check the potential employees' integrity and take actions to ensure their integrity. If the notary appoints, from his/her employees, a person responsible for the application of the provisions of Law No 308/2017, he/she does not have the right to make any decision affecting the notary's activity. Thus, eventually, the notary him/herself is responsible for making decisions in terms of preventing and fighting against money laundering and terrorist financing. Persons responsible for the application of the provisions of Law No 308/2017, are entitled to

[110] https://www.legis.md/cautare/getResults?doc_id=113127&lang=ro

perform only a part of duties, because the notary fulfils the remaining field-related responsibilities.

Notaries establish the identity of the applicant of the notarial act and other participants in the process of notarial act preparation, according to Law No 246/2018[111] on the Notarial Procedure. The identity is established based on identity documents. If there are doubts regarding the identity or the identity document's veracity, the notaries establish the person's identity, with his/her written consent, based on the information in the State Register of Population. The identity of foreign citizens and stateless persons is established by notaries based on valid travel document, recognized or accepted by the Republic of Moldova, or based on identity documents issued in accordance with Law No 273/1994[112] on Identity Documents in the National Passport System.

In order to authenticate the legal document with the legal entity's participation, the notaries verify its legal power, composition of the management bodies, act of incorporation, management body members, act confirming the representation powers and the limits of the representative's mandate, and access the respective register, checking the confirmation of the legal entity's registration, as well as the identity of the legal entity's representative and beneficial owners.

During the reference period, the notaries used various sources of independent and reliable information, which is included in the public registers and can be easily accessed by notaries. Databases used by notaries are:

- Open information sources;
- Database e-Cadastre (real estate register);
- Web database AIS 'ACCES-Web', which includes the registers like SRP – State Register of Population, SRLE – State Register of Legal Entities and State Register of Individual Entrepreneurs, SRV – State Register of Vehicles;
- Information from the National Bureau of Statistics.

The Notary Chamber is a professional organization, established under the Law No 69/2016, which includes all notaries operating in the Republic of Moldova.

According to the Law No 308/2017, the Notary Chamber as a supervisory body, issues regulatory documents in the field of preventing and fighting against money laundering and terrorist financing, approves and publishes guidelines and recommendations necessary for notaries to implement the legislation in preventing and fighting against money laundering and terrorist financing, monitors and verifies the application of provisions in the given field.

The Notary Chamber's duties as a supervisory body are established in the Regulation on the Activity of Notaries in the field of preventing and fighting money laundering and terrorist financing, approved by the General Assembly of Notaries of 06.10.2018, which includes supervisory policies and measures, especially when performing remote monitoring, as well as risk-based supervisory principles.

[111] https://www.legis.md/cautare/getResults?doc_id=112276&lang=ro
[112] https://www.legis.md/cautare/getResults?doc_id=115919&lang=ro

The Notary Chamber has an employee in this field, whose task is to make sure that the Chamber monitors the notaries' compliance with the obligations to prevent and fight against money laundering and terrorist financing.

Regular trainings are organized for notaries in terms of preventing and fighting against money laundering and terrorist financing, with the participation of responsible person in the Notary Chamber.

During the reference period, the monitoring of notaries' compliance with the obligations to prevent and fight against money laundering and terrorist financing was carried out through off-site controls, i.e. by completing the files regarding the observance of relevant legal provisions, reports and questionnaires.

The actual level of knowledge in the field of preventing and fighting against money laundering and terrorist financing is not sufficient, but it is necessary to organize regular training along with the identification of sector's risks and development of procedures for proper implementation of legal requirements associated with this field.

Concurrently, it should be noted that no trainings were organized for the notaries' employees engaged in executing the provisions of Law 308/2017. In this way, notaries, on their own, train their employees in the field of preventing and fighting against money laundering and terrorist financing.

A big problem for notaries is the lack of information systems which allow the continuous monitoring of business relationship, including the examination of transactions concluded throughout the respective relationship, and the existence of notary registers does not facilitate monitoring of these relationships. As a consequence, the notaries are only able to monitor the activity of some customers who ask for notarial assistance for a longer period (e.g., in the authentication of contracts for the purchase-sale of assets in construction), and the customers who are provided with notarial assistance only one time are not subjected to monitoring.

Taking into account the profession specificity, the notaries have the possibility to control and analyze unusually large transactions, based on the relatively small number of such transactions. In this context, it is not necessary to create a separate information system.

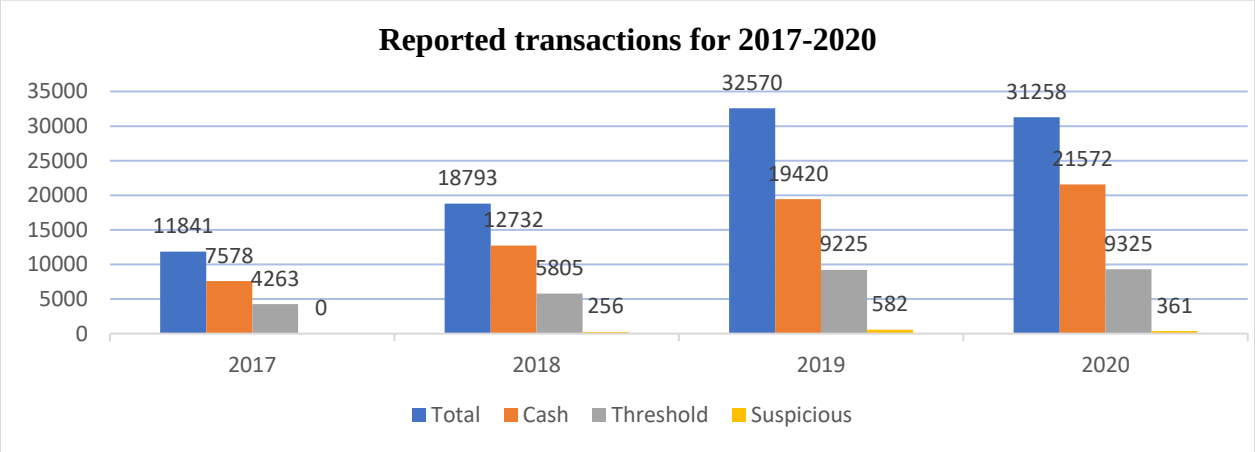
As for politically exposed persons, they can only be identified by using information from public sources and customers' declarations. However, this problem is not sectoral, but national.

The access to accurate information about the beneficial owner is one of the main issues when applying the legislation in the field of preventing and fighting against money laundering and terrorist financing, especially in the case of non-resident people and non-government organizations. Although the publicity registers contains a heading on the company's beneficial owner, notaries do not have access to the respective information due to additional costs, which makes it difficult to identify the beneficial owner and enhance the risk of money laundering and terrorist financing.

In the case of companies, notaries require from customers information on the company's ownership structure and verify the given information in the registers they can access. However, not in all cases is possible to definitely establish the information about beneficial owner.

The citizens resort to presenting loan contracts for the confirmation of the source of funds. In order to avoid the use of fake loan contracts, as evidence of money source provenance, the legal obligation to notarize loan contracts from a certain amount of money should be provided. Or, the number of notarized loan contracts has been decreased once the notaries' obligation to verify the sources of funds was introduced. In European countries, that introduced the given obligation to notaries (assigning the given power to a state representative - notary), the requirement for notarial authentication of loan and money donation contracts from a certain amount of money was introduced (based on existing risks in the respective country). This step would reduce the number of investigations performed by the OPFML, given that the source of funds will be verified by notaries.

The degree of use of cash in notarized transactions is high. The level of identifying and reporting suspicious transactions to the OPFML is low.



Following the analysis on implementing by notaries legal provisions to prevent and fight against money laundering and terrorist financing, the following gaps were identified:

- inappropriate qualification of transactions reported to the Office for Prevention and Fight against Money Laundering;
- low level of reporting suspicious transactions;
- lack of internal risk assessment and failure to apply the risk-based approach;
- failure to identify the source of funds related to intermediary transactions;
- decreasing value of authenticated contracts (the cadastral value is declared);
- failure to access information about beneficial owner;
- lack of notaries' resources to enforce the legal provisions on the identification of politically exposed persons and beneficial owner;

- lack of necessary training to enforce the legal provisions on the application of precautionary measures against customers.

Note that an important factor determining the vulnerability level is the facilitation by real estate agents of money laundering phenomenon in relation to certain customers, by consulting them on the presentation of fake information about their funds and beneficial owners.

The activity performance by notaries, the provided services and products, the work environment, the customers, the applicable regulatory framework, the attractiveness of notaries to be used for money laundering and/or terrorist financing and other related factors, such as the volume and value of transactions, as well as the share of the given sector with regards to the national economy, led to the identification, in general, of a medium-high risk of money laundering and terrorist financing associated with the notaries' activity.

6.4.11. Gambling organizers

According to the provisions Law No 291/2016[113] (in force since 06.01.2017), the organization and conduct of activities in the field of gambling on the territory of the Republic of Moldova, except for the casino maintenance, is a state monopoly and takes place under the respective law.

To mention, the activity management in the field of gambling which is a state monopoly is carried out through JSC 'National Lottery of Moldova' (founder 100% - Public Property Agency). The activity of gambling organizer which is a state monopoly – National Lottery of Moldova – is not subjected to licensing.

According to the Public Services Agency's data, only 2 licenses to maintain casino were issued during 2017-2020.

In compliance with the legislation's provisions, the state regulation, state supervision and state control of gambling activity is performed by the Agency for Consumer's Protection and Market Surveillance.

One important aspect regarding this field, is the online gambling organization, activity that is a state monopoly and does not require a license. Thus, JSC 'National Lottery of Moldova' launched the 7777.md page by which it is possible to play online.

At the same time, Moldovan players can create an account with international operators of online gambling. There is no law prohibiting this and no sanction for those who choose to play online casino games. It should be noted that, Law No 291/2016 stipulates that competent authorities with function of control are empowered to identify pages by which unauthorized gambling is accessed in the established manner and immediate communication of information about identified unauthorized activities, in order to block the access to these websites and bank

[113] https://www.legis.md/cautare/getResults?doc_id=96944&lang=ro

account transfers used to fund the player's gambling accounts or to place bets on blocked websites. Thus, following the example of foreign countries, online gambling websites that are foreign (are not authorized) cannot be accessed in the respective country.

During the analysis period, it was found that foreign citizens residing in countries where the activity is prohibited are interested in Moldovan gambling (Arab countries, except for Russia, Dubai, certain EU countries). Therefore, business entities owning casinos organize tourist packages of type 'gambling tour' for citizens of these countries.

Another important aspect, provided by Law No 291/2016 is the single electronic system for state monitoring of gambling – a set of specialized equipment and software, intended to obtain, through the internet or other networks of electronic communications, the processing, collection and record of information from the respective gambling premises (gambling equipment, if required by law) about received stakes, paid winnings, as well as to ensure the protection of information from loss, theft, distortion, counterfeiting, unauthorized damage actions, modification, copying of data and other similar actions, of unauthorized access, including through the internet. Gambling organizers are required to connect the appropriate software to the internet and transmit, via networks of electronic communications, the data in the gambling registers to the single electronic system for state monitoring of gambling, in the manner provided by the competent authority.

Currently, JSC 'National Lottery of Moldova' is connected to this system, so that the information is available for the competent authorities. At the same time, it should be noted that casinos were not connected to the single system because the casino managers did not consider it appropriate to invest in creating such an electronic system, arguing that the state should offer this system for free, and JSC 'National Lottery of Moldova' does not want to provide access to their system because they are the owners (the respective system was provided by private partners).

The level of transactions reported, in accordance with Law No 308/2017, to the OPFML is very low (lack of statistical data for 2017, because the licenses for casino maintenance were issued at the end of 2017), as represented in the following table:

Number of reported transactions	2018	2019	2020
Suspicious	-	-	-
Limited	-	46	16
Cash	7	145	111

The JSC 'National Lottery of Moldova' and casinos did not submit certain formulas regarding the transactions carried out on the online gambling platform.

According to Article 103(1) (14) of Tax Code, the gambling-related services are exempt from VAT (gambling-related services provided entities performing entrepreneurial activity in the field of gambling (including with the use of automatic gambling), except for services whose total or partial value was included in the stake or payment for entry and other services provided to viewers or participants; lotteries). In this way, the state budget loses revenue every year as a result of the VAT exemption.

As a result, the following gaps are revealed in this field, namely:

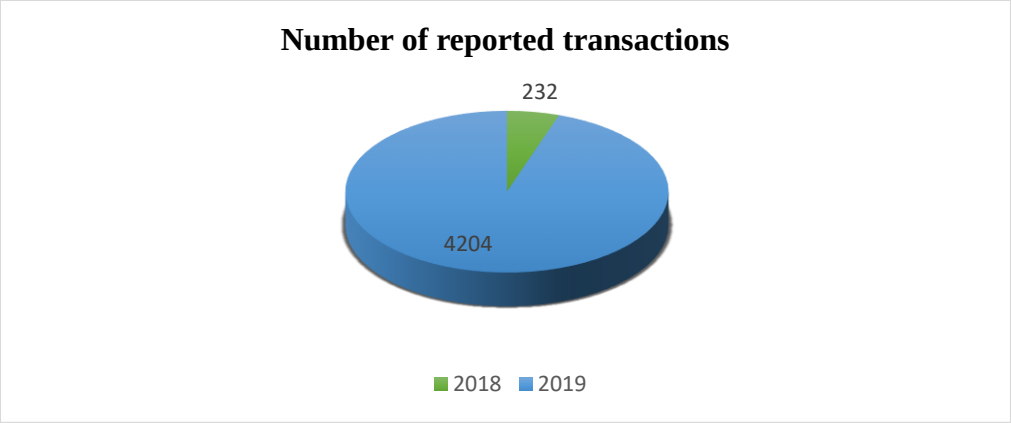
- lack of certain sectoral regulations on preventing and fighting against money laundering and terrorist financing;
- divergences of legal provisions for gambling supervision and control in terms of preventing and fighting against money laundering and terrorist financing;
- lack of connection to the single electronic system for state monitoring of gambling of all business entities owning casinos;
- low level of transactions reported to the Office for Prevention and Fight against Money Laundering;
- lack of training for gambling employees in the field of preventing and fighting against money laundering and terrorist financing.

Analysis of the gambling sector led to the identification of a medium-high risk of money laundering and terrorist financing.

6.4.11. Other individuals and legal entities who trade with assets amounting to at least MDL 200,000 or its equivalent only in the case of cash payments, regardless of whether the transaction is performed by one operation or by more operations that seem to be related to each other.

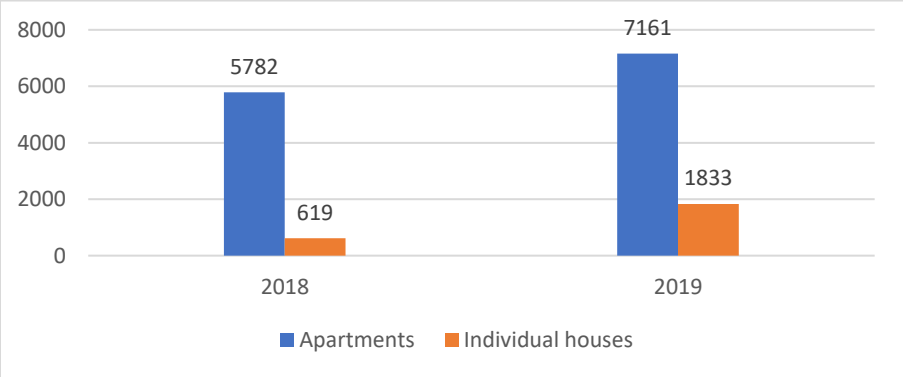
Following the transpositions of the provisions of item 6 of EU Directive 2015/849 of the European Parliament, on the use of large cash payments, which is a risk of money laundering and terrorist financing and the increase in vigilance and risk mitigation caused by cash payments, in the wording of Law No 308/2017, compared with the previous legislation, the provisions of Article 4(1) (l) stipulates the introduction of a new category of entities, i.e. other individuals and legal entities who trade assets amounting to at least MDL 200,000 or its equivalent only in the case of cash payments, regardless of whether the transaction is performed by one operation or by more operations that seem to be related to each other.

Thus, within the 2018-2019 analysis of the given reporting entities, it was found a dynamic increase in transaction reporting in accordance with the statistical table shown below.



Based on the analysis of legal entities' structure that falls within the scope of the Article 4(l) of Law 308/2017, it was established that most entities work in construction of real estates with their subsequent placement in service and sale.

According to the National Bureau of Statistics, 16,935 housing units, 12,943 apartments and 2,452 private houses were released to service during the respective period.



Given the legal and organizational form, the construction companies in the Republic of Moldova are classified by following criteria:

	2018	2019
Total	1587	1624
Public	7	8
Joint (public and private), without foreign participation	11	12
Private	1525	1560
Foreign	22	25

The trade companies also increase the share of reports – car purchase, so in 2019, 6,843 new cars were sold in Moldova, increasing by 8.7% compared to 2018 - 6,293. The growth rate was lower than the one registered in 2018 when sales increased by 12.7% compared to 2017 – 5,584.

Car sales	2017	2018	2019
Total	5584	6293	6843

Taking into account that any individual/legal entity trading in assets in the amount of at least MDL 200,000 in cash or its equivalent can become reporting entities, the obligation to supervise fell on the OPFML.

In this regard, according to the provisions of Article 37 of Law No 308/2017, the OPFML approved by Order No 41/2018 the Instruction on the application of Article 4(1) (l) of the mentioned law.

Also, the OPFML, along with the support of other interested institutions, conducted a number of trainings with many reporting entities in terms of developing the internal program to prevent and fight against money laundering and terrorist financing, applying know-your-customer measures, analyzing the implementation of risk-based approach, criteria of the suspicion indices of transactions and their reporting etc.

Following the analysis on implementing by the respective entities legal provisions to prevent and fight against money laundering and terrorist financing, a range of gaps were identified:

- failure to identify and report transactions by certain reporting entities;
- lack of qualified staff able to execute the legal provisions on the application of precautionary measures against customers;
- failure to comply with own programs for preventing and fighting against money laundering and terrorist financing;
- lack of internal risk assessment and failure to apply the risk-based approach;
- failure to identify the source of funds related to intermediary transactions.

The activity performance by indicated entities, the provided services and products, the work environment, the customers, the applicable regulatory framework, the attractiveness of entities to be used for money laundering and/or terrorist financing and other related factors, such as the volume and value of transactions, as well as the share of the given sector with regards to the national economy, led to the identification, in general, of a medium risk of money laundering and terrorist financing.

6.4.12. Virtual assets

For purposes of FATF Recommendation 15 and Article 47 in the EU Directive 2018/843[114], the competent authorities of a state should, through responsible entities, monitor the use of virtual currencies in order to fight against money laundering and terrorist financing. Such a monitoring offers a balanced and proportional approach,

[114] https://eur-lex.europa.eu/legal-content/RO/TXT/PDF/?uri=CELEX:32018L0843&from=BG

reflecting technical progress and high degree of transparency achieved in the field of alternative financing and social entrepreneurship. In this context, the authorities in the Republic of Moldova should take into consideration the adoption of legislation regulating the prevention and fight against money laundering and terrorist financing in the field of virtual assets. In order to combat money laundering and terrorist financing, the competent authorities should be able to monitor the sector of virtual currencies. Such a monitoring would offer a balanced and proportional approach, protecting the technical progress and high degree of transparency achieved in the field of alternative financing and social entrepreneurship.

Thus, it is mandatory for providers of virtual and fiat currency exchange services and digital wallet providers to be registered. The registration regime also contributes to the control and supervision of this type of activity in the country, the information on their number and list being available for the supervisory authority and those lawful.

In this sense, according to international experience, licensing regimes were introduced for providers of virtual and fiat currency exchange services and digital wallet providers. The implemented licensing systems rely on laws and regulations that refer to the requirements for obtaining license, the license quality (for example, requirements for suitability and appropriateness, internal control procedures) etc.

At the same time, the emerging risks of virtual assets may depend on the type of services, products, transactions, customers, geographical factors etc. This type of services allows remote business relationships, without the possibility to identify and verify the customer and beneficial owner, through which instant transfers of funds can be carried out globally, largely irreversible. Also, the competent authorities, due to the respective field's continuous development and lack of some effective instruments, can encounter difficulties in supervising digital wallet providers.

According to the European Commission's Report on risks of money laundering and terrorist financing which affects the domestic market and the FATF Guideline regarding the risk-based approach to virtual assets, this field is considered to be at high risk.

Respectively, the following risks on virtual assets are revealed:

- lack of field regulation in the national legislation, especially in terms of preventing and combating money laundering and terrorist financing (introduction of the definition of virtual asset, inclusion of digital wallet providers in the list of reporting entities etc.);
- the respective services are provided through the internet, and the cross border element is the most visible risk factor, because it allows the interaction with high-risk area or high-risk customers (darknet) which cannot be identified;
- lack of knowledge and understanding, which hinders the national competent authorities to conduct proper impact assessment;
- gaps or ambiguities in applying existing regulations;

- potential exposure of financial organizations to risks of money laundering and terrorist financing, if these act as intermediaries or exchange platforms;
- limited possibility to identify and verify customers, limited information on the funds' origin/beneficial owner;
- as a developing technology, the competent authorities should have proper instruments to detect and analyze the blockchain.

7. Relevant deficiencies and gaps in the assessment process

The Republic of Moldova carried out a national assessment of the risks of money laundering and terrorist financing for the first time in 2017. Respectively, this report reflects an update of the risks of money laundering and terrorist financing.

This assessment is a complex and long-term process, requiring considerable resources and efforts of the involved institutions at national level. Given the complexity degree, multiple difficulties were revealed.

Thus, following the establishment of working group composed of relevant institutions' representatives, a series of difficulties occurred in the implementation process in terms of collaboration, accountability and non-proportional allocation of resources from involved institutions.

Staff turnover at the level of executors participating in the process adversely affected the achievement of efficient outcomes at all assessment stages, resulting in appointing untrained persons, with professional abilities unrelated to the field.

The administrative reforms of institutions involved, that took place during the national risk assessment, also, adversely affected the process. The measures developed have not been rectified efficiently in the internal procedure, so that the institutions failed to allocate sufficient resources by creating working groups to include at least several representatives of the relevant institutions. The designed executors did not have access to required data, which is why the process of data provision by each group slowed down. Members of the working groups chose the classical manner of communication through interi-institutional querying instead of direct communication, and this pattern caused difficulties in the process of data collection.

The most important problem was the collection of data from responsible authorities. The lack of statistical data and other required information, the diversity of the presented data which made the analysis process difficult and, accordingly, the recommendations for each relevant sector. At the same time, the difficulty to formally present the required data was revealed and/or certain irrelevant information was provided.

8. Measures to improve the process of national statistical data collection

In order to implement the FATF Recommendation 1 on the national risk assessment in the field of preventing and fighting against money laundering and terrorist financing, a national survey was conducted to analyze the existing field-related methodologies, and namely the methodologies developed by the International Monetary Fund and the World Bank, that have efficient procedures and policies in the field.

The World Bank's methodology includes 2 basic modules: 'the national threat' and 'the national vulnerability', that consist of 8 sub-modules and represent a program for data collection and a program for data assessment. To identify the national threats in the field of money laundering and terrorist financing, the working group accumulated a wide range of data on the causes of money laundering and terrorist financing, the achieved results and the size and share of affected sectors, regions indicating geographical threat, sector analysis etc. Therefore, a series of gaps is established with regard to statistical data maintenance and update, insufficient and diverse information, including within the same institution. The entire process revealed multiple issues due to the lack of an unified database on the fields of preventing and fighting against money laundering and terrorist financing.

The maintenance of statistical data on funds' blocking, seizures and confiscations related to cases of money laundering and terrorist financing is extremely important. Given that the collected data contain errors and gaps, overlaps and inaccuracies, which represents a distorted picture, a mechanism is proposed to be created for the establishment of evidence indicators, in terms of reporting data on investigations, criminal proceedings, sentences, seizures and confiscations etc.