Republic of Moldova

Public Expenditure and Financial Accountability Assessment

Public Financial Management Performance Report

July 2008

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Glossary

AGA	Autonomous Government Agency
AME	Annual Managed Expenditure
AMRPPHA	Agency for Materials Reserves, Public Procurement and Humanitarian Aid
ASYCUDA	Automated System for Customs Data
ATU	Administrative Territorial Unit
BIZTAR	Business Regulatory & Tax Administration Reform
CCCU	Combating Crime and Corruption Unit
CFAA	Country Financial Accountability Assessment
CHU	Central Harmonisation Unit
CIFMA	Compulsory Insurance Funds for Medical Assistance
COA	Court of Accounts
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Report
DEL	Departmental Expenditure Limit
DFID	Department for International Development
DMFA	The Department of Monitoring and Financial Analysis
DMFAS	Debt Management and Financial Analysis System
EBE	Extra Budgetary Expenditure
EC	European Commission
EGPRSP	Economic Growth Poverty Reduction Strategy Paper
EU	European Union
FCRS	Financial Control and Revision Service of the MOF
FMIS	Financial Management Information System
FRA	Fiduciary Risk Assessment
FSP	Food Security Programme
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GOM	Government of Moldova
HBS	Household Budget Survey
HDI	Human Development Index
IA	Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board
JSC	Joint Stock Companies (where GOM have an ownership share)
LG	Local Government
LLPF	Law on Local Public Finance
LM	Line Ministry
LSBSP	Law on State Budget System and Process
MDAs	Ministries, Departments and Agencies

MEUAP	Moldova - European Union Action Plan
MOET	Ministry of Economy and Trade
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBM	National Bank of Moldova
NDS	National Development Strategy
NSP	National Strategic Plan
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIU	Project Implementation Unit
PRGF	Poverty Reduction Growth Facility
SAI	Supreme Audit Institution
SE	State Enterprise
SIDA	Swedish International Development Agency
SN	Sub National
SSIB	State Social Insurance Budget
ST	State Treasury
STA	Single Treasury Account
STI	State Tax Inspectorate
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
TT	Territorial Treasury
UNDP	United Nations Development Programme
VAT	Value Added Tax

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The lead authors are John Short and Andrew Mackie (consultants). The work of the team was supervised by Elena Nikulina, Senior Economist at World Bank Office in Moldova. Andrei Busuioc, Financial Management Specialist from the same office also worked as part of the team. Liudmila Caziuc provided organisational and analytical support.

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Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2008	Score 2006
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	A
PI-2	Composition of expenditure out-turn compared to original approved budget	A	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A
PI-4	Stock and monitoring of expenditure payment arrears	A	B
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	C↑	C
PI-6	Comprehensiveness of information included in budget documentation	A	A
PI-7	Extent of unreported government operations	B+	B+
PI-8	Transparency of inter-governmental fiscal relations	A	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C+↑	C+
PI-10	Public access to key fiscal information	A	A
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	A	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B↑	B
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	A	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+↑	B+
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+
PI-17	Recording and management of cash balances, debt and guarantees	B+	B
PI-18	Effectiveness of payroll controls	B+	D+
PI-19	Competition, value for money and controls in procurement	B	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	B	C+
PI-21	Effectiveness of internal audit	C+↑	C+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	A	B+
PI-23	Availability of information on resources received by service delivery units	B	B
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	C+	C+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	C+	C+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	D	D+
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D+	No Score
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D
D-3	Proportion of aid that is managed by use of national procedures	D	D

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of the Republic of Moldova at June 2008. The Report follows the PEFA methodology and, as such provides a direct comparison with the 2006 PEFA assessment. Moldova is the first country in Europe and Central Asia to have completed two PEFA assessments and the process has provided a robust platform for an assessment of progress in the PFM process over the last two years.

Based on the PEFA methodology the Government of Moldova had prepared a comprehensive self-assessment in advance of the first mission. This self-assessment formed an excellent basis for the first fact finding mission in April 2008 which was led by the World Bank and included two international consultants. A draft report was circulated in May 2008, which benefited from comments from the Government of Moldova, its development partners and by the PEFA Secretariat in Washington DC. This draft and comments formed the base for discussions during the second mission in Moldova in June 2008 and at a workshop in Chisinau on 5th June 2008.

(i) Integrated assessment of PFM performance

1. Credibility of the budget

This group of indicators (PI-1 to PI-4) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

The relationship between the expenditure outturn and budget that had been established was good with aggregate outturn expenditure exceeding that budgeted in the period from 2005 to 2007. This has been the result of a revenue surplus emanating from positive economic developments that have been generated by increased investment and remittances. There has been a significant increase in imports which has resulted in increased tax revenue which has been assisted by improvements in customs administration (applying ASYCUDA World). The concern is whether these year-on-year increases can be sustained which has led to a cautious approach to revenue forecasting. If these improvements are considered to be a continuing feature of Moldova, then ensuring less caution in revenue forecasting will be beneficial as it would give a better budget preparation perspective for Line Ministries. Nevertheless, these additional revenues have been used in Supplementary Budgets to increase investment, particularly in priority sectors. By and large the increased revenue has been distributed among all Line Ministry with the variances in excess of the total deviation tending towards zero (which was achieved in 2007).

An aging profile of expenditure arrears is now prepared systematically, which was not available in the past. The level of these arrears as a share of total expenditure is low and falling (0.6% of total expenditures in 2007).

2. Comprehensiveness and transparency

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible Good scores point to low fiduciary risks.

In Moldova, the State Social Insurance Budget (SSIB), which receives social insurance contributions, transfers from the state budget and other revenues (interest, late payment penalties) and the Compulsory Insurance Fund for Medical Assistance (CIFMA) which receives insurance premiums for medical assistance, transfers from the state budget and other revenues (interest, late penalties), as are the seven special funds and special means (which account for less than 10 percent of the budget) are all part of the national public budget. The SSIB and CIFMA are formulated in conjunction with the Ministry of Social Protection, Family and Child and Ministry of Health who are responsible for the policy formulation and the level of services offered by SSIB and CIFMA under the respective ministry's mandate. Transfers to middle level (Rayons and Municipalities which also make transfers to lower level units) Administrative Territorial Units (ATUs) are also included in the State Budget and are formula driven and transparent. ATUs set their own budgets which are readily available for scrutiny.

The budget calendar provides sufficient time for budget preparation and deliberation by Cabinet and Parliament. There is a good use of web based dissemination of information to the public at large.

3. **Policy-based budgeting**

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

National economic development policy is established through the National Development Strategy (NDS), the successor to Economic Growth and Poverty Reduction Strategy Paper, and the EU - Moldova Action Plan. These policy aspirations are partly reflected in the MTEF sector strategies and the challenge will be to make the MTEF and the annual budget fully reflective of the strategies espoused in the NDS. The MTEF is leading budget reform and has been successful in delivering predictability in the fiscal framework at the aggregate level. The MTEF is Ministry of Finance driven and the involvement of Line Ministries is through the newly created Unit for Analysis, Monitoring, and Policy Evaluation, which require to be fully developed to match the level of expertise in the Ministry of Finance. It is only when this takes place then that national policy will be fully reflected in Line Ministries' budgets.

4. **Predictability and control in budget execution**

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

Taxes imposed at the border are collected by the Customs Service but other taxes are administered by the State Fiscal Service. Customs' operation administration is centred on the use of ASYCUDA World with its effective functionality for customs control, revenue collection and audit. Business practices in the State Fiscal Services are not as well developed with improvements planned in audit and debt management which will require the adoption of modern IT solutions as well as reorganisation and restructuring of the State Fiscal Service. A recent write-off of un-collectable debts to the State Fiscal Service provides an opportunity to start anew on managing and collecting arrears. Nevertheless, overall tax administration is providing an effective vehicle for collecting revenue for funding public expenditure, which should improve further once administration reform in the State Fiscal Service is implemented.

Budget execution is controlled through the setting of allocation limits which are based on forecasts of available resources and the individual needs of the spending institution with due regard to seasonality of expenditures. The procedures to change allocation limits are difficult and the process does not take full account of commitments. In general internal control procedures are well understood. However the work of the Financial Control and Revision Service continues to focus on ex-post inspections focused on budget compliance rather than on identifying areas for improvement in the existing systems of internal control.

The Government has prepared a Strategy for the Development of Public Internal Financial Control (PIFC) with the goal of moving to a modern system which harmonizes the control and audit of public resources in accordance with best international practice. There are currently ten internal audit (IA) units in place in major public institutions. These IA units have been established independently and presently lack an overall harmonised methodological framework. The current work undertaken by these units contains elements of ex-post inspection and of internal audit. Units are not conducting their activities on the basis of modern risk assessment methodology and there is a basic need to raise managerial awareness of concepts of managerial accountability and for training on internal audit techniques. In 2008, three pilot internal audits in the MOF adopted a systems approach (i.e. conducting an evaluation of business processes, an analysis of internal controls and an evaluation of its effectiveness.

Personnel or payroll facilities and staffing functions are completely decentralised. There appears to be reasonable and well understood controls to ensure that changes to personnel status are reflected in the payroll system. Major LMs use computerized payroll software. Smaller budgetary institutions use either computerised or manual payroll systems.

A new Public Procurement Law was enacted that brings public procurement in line with international standards and practices. The more positive aspects concern the decentralization of procurement function to the spending entities, a greater degree of separation in responsibilities within public procurement and increased transparency. Major contract awards are published quarterly in the Procurement Bulletin and on the web page. Data from AMRPPHA shows that over 90% of contracts by value and by number of contracts were procured through competitive open bidding or shopping procedures in 2007 which is a welcome improvement from previous years. The main reason is the requirement for tender documents to be registered with the AMRPPHA and the AMRPPHA to be less willing to grant permission for sole sourcing than previously. In addition to monitoring requests for sole sourcing, the AMRPPHA has made considerable effort to provide training and to explain the new procurement procedures to procuring agencies. Nevertheless, a major problem is that these agencies are not consistently applying the law. As a result much further work is needed in order to develop a well-functioning procurement system that ensures that money is used effectively and efficiently. The legal provisions for complaints are, in general, clear and provide for oversight by the AMRPPHA.

As noted under Donor Practices (D Indicators) donors do not use the Government's procurement system.

5. **Accounting, recording and reporting**

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

The State Treasury (ST) is serviced through the Single Treasury Account (STA) with the NBM, through which all central Government revenues and expenditures are recorded. The introduction of the STA is a recent and welcomed development. All transactions of the ST can be accessed in real-time through on-line access to the account at the NBM. Reconciliations between bank and ST records are performed on a daily basis. Records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes. Local territorial treasuries provide daily statements (covering both revenues and expenditures) to individual budgetary institutions and this allows them to update their accounting records. The quality of these accounting records varies enormously between budget institutions in local governments as there is no requirement to use standard accounting software pre-approved by the Government. The annual budget execution report is not a consolidated financial statement and does not provide sufficient details and disclosures of financial assets/liabilities, information on financial risk or contingent liabilities, although most of this information is available in separate reports.

6. **External scrutiny and audit**

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

The Court of Accounts (COA) is free to audit any public body or institution including funds and special means. Since 2005 the COA has made significant progress in the development of an approach which meets best international practices. Firstly, amendments to the Law of the Court of Accounts in 2005 introduced modern audit concepts such as the addition of performance auditing into legislation; Second, COA published a Strategic Development Plan (2006-2010) in April 2006 which is based on four main pillars of: (a) institutional strengthening, (b) profession building (c) staff development and (d) achieving a greater impact from COA audit activities.

In its efforts to shift to modern audit approaches the COA has, with the support of international experts (a) developed a series of national audit standards which have been developed on the basis of international standards, (b) conducted pilot performance audits over the State Fiscal Service and State Customs Service, (c) developed new methodologies to the evaluation of internal controls based on international practice which were applied at a number of entities to promote the importance of good internal controls in improving public sector financial management, and (d) conducting pilot attestation audits which included opinions on the propriety, accuracy and reliability of pilot entities financial statements. Generally the COA appears to be conducting this compliance function effectively. Arrangements for scrutiny of public finances and follow-up by the executive are in place.

COA reports are finalized after consultation with officials of the audited entity at formal session of the Court. All the Members of the COA, together with officials of the audited entity, and other interested parties are present at the hearing.

The COA Chairman presents to Parliament annually the Report on the management of public finances (including reports on State Budget execution, SSIB, SIFMA). The COA is also required to provide opinions for the draft budgets laws and to present the results of ad-hoc audits requested by factions within Parliament. The individual results of the Court's control activities do not tend to be discussed in Parliament or its committees. However, all of them are consolidated into the annual report and are discussed at plenary. A follow-up action plan is delegated to the Government of Moldova to prepare and implement.

7. **Donor Practices**

Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

Basically only budget support, whose predictability is constrained by conditionality and assessment timing, is conducted through the Government system. There are pilot projects that use some features of the Government system. However, while not implemented through the treasury system, Government is able to factor a significant element of donor support in the MTEF and budget planning process.

(ii) Assessment of the impact of PFM weaknesses

Weaknesses can be summarized as:

- Budget Planning
    - Need to improve planning and budget formulation in line ministries to fully reflect the National Development Strategy and the MTEF. Specific attention needs to be directed at improving the overall capacity to implement the investment cycle starting at the identification of project possibilities through to the selection of projects for execution. The consequence of these weaknesses are that resource allocation linked to ministerial priorities would be ineffective and the centre would allocate the budget as it sees fit rather than an allocation based on sectoral expertise. Transparency under these circumstances could be doubted.
- Budget Execution
    - While revenue collection is buoyant, there are weaknesses in tax audit and debt control which require re-organisation of the State Fiscal Service through the introduction of modernised business processes and the adoption of a modern computer system.
    - The current procedures focus on allocation control and provide little real flexibility to amend budgets to accommodate changed circumstances.
- Budget Accounting and Controls
    - Need to fully develop a public sector internal control environment and internal audit institutions, which are based on international models. Without these, control will focus on top-down compliance and enforcement rather than holding budget managers fully accountable for improving their organization's financial management systems. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
    - While payroll controls in the Line Ministry level are sound, a large component of wages and salaries lies in decentralised entities. Control mechanisms are variable here and, while strictly outside the scope of the PEFA, merit attention due to their size and importance.
    - Basic control on the entry into contractual arrangements is in place, but this does not cover all areas of expenditure and does not provide ability for managers, Ministries and the MOF to monitor the commitments position. This weakness can only be addressed through the proposed new FMIS and, without this, incomplete coverage will continue.
    - Failure to achieve best value for money through competitive procurement practices will continue to be a high risk area. Further capacity building will be needed over a number of years in order to develop a well functioning and effective procurement framework.
- Budget Reporting and External Audit
    - The GOM has the ability to produce meaningful consolidated financial reports, which fully address issues of asset management, risk,

contingent liability, etc. The present focus is on straightforward budget execution reports. There is a need to organize the preparation of financial reports in accordance with evolving international financial reporting practice.
    - Need to further develop skills in financial and performance audit in accordance with modern auditing concepts. In addition, increased demand and scrutiny of the work of the COA by Parliament, and media and civil society involvement will result from work which addresses topical public concerns (e.g. value for money, service delivery and thematic audits).

- External Scrutiny
    - The budget documentation is reviewed by the Parliamentary Committee for Economy, Budget and Finance and the budget is debated and passed by Parliament. However the MTEF is not received in the same way as it is considered a Government document.
    - With respect to accounts the elected representatives do not yet contribute to holding the executive to account. The legislature is less involved and does not have in-depth hearings on audit reports and is only dealing with the Court of Accounts on its annual activity plan, its own budget, and the annual report on the management of public finances (including State Budget execution, SSIB, SIFMA, also results of other relevant controls/audits).

(iii) Prospects for reform planning and implementation

The PEFA assessment has been produced during a significant period in the overall reform of PFM in Moldova covering:

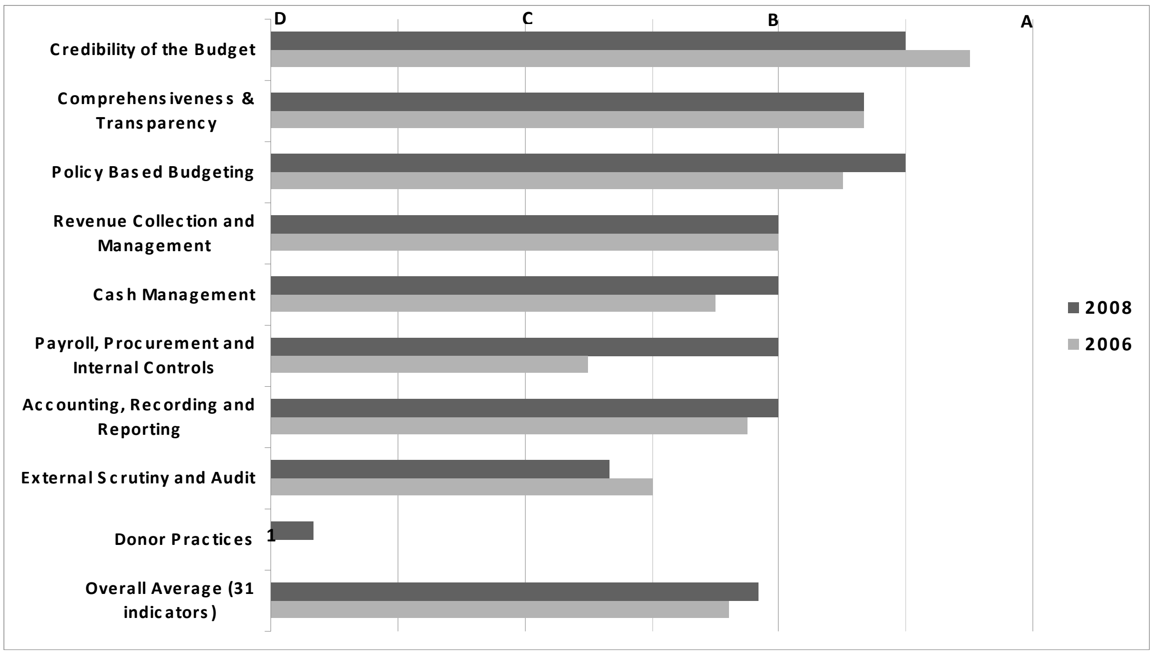
- Policy Formulation – the National Development Strategy and Action Plan.
- Budget Preparation – the continued development of the MTEF.
- Budget Classification - The draft of new budget classification will be completed shortly and it is planned that the new economic and functional classification will be introduced starting with the formulation of the 2010 budget.
- Budget Execution and Accounting – the commitment to introduce a new FMIS with a planned implementation date of 2010. The proposals made appear to be soundly based and offer significant improvements in the quality and timeliness of financial information. Procurement – a new Procurement Law, but there are still donor concerns regarding the independence of the Procurement Agency.
- Internal Audit – the development of Public Financial Internal Control which includes improved institutional and methodological arrangements for internal audit within Government.
- External Audit – ongoing support to the COA including implementation of the Strategic Development Plan developed in 2006.
- Service Delivery – the implementation of Public Administration Reform.

These reforms are significant and cover the full range of PFM and are supported by technical assistance from a range of bilateral and multilateral donors. They continue to require continued strong leadership and coordination from Central Government as well as significant inputs from staff in all ministries which will require new skills (and consequently training) as well as commitment to implementing these changes. The challenge of fully implementing such an ambitious set of PFM reforms should not be underestimated.

iv. Key changes from 2006 to 2008.

Solid progress in the quality of PFM systems and processes has been achieved between 2006 and 2008, as measured by the PEFA methodology. This is shown in Figures 1 and 2 below.

Figure 1: Moldova: Comparison of PEFA scores 2006 to 2008.



Note 1 - Donor Practices had one no-score in 2006 with an average of D for the other indicators

Figure 2: Moldova: Summary Comparison of PEFA Scores 2006 and 2008.

Score	2008 (No.)	2006 (No.)
A	9	7
B or B+	9	9
C or C+	8	9
D or D+	5	5
No score	0	1
Upward Arrows	5	Not applied in 2006
Improved Scores	10	-
Reduced Score	2	-

The improvements in scoring have, in some cases arisen purely as a result of small managerial or administrative improvements. The most significant development which influenced the scores from 2006 to 2008 was the creation of the Single Treasury Account, which improved the overall scores in Cash Management and Accounting Recording and Reporting. The biggest improvement in overall scoring was in payroll, procurement and internal controls. This reflects improvements in the score for procurement but also the rather cautious scoring of payroll controls in 2006.

The Assessment Team noted five indicators where, while the scores had not changed, the ongoing programme of reform to public finance management systems is moving in a positive direction[1]. Some of these technical changes (e.g. budget classification and technical changes to the monitoring of SEs) will have an impact on scores as soon as they are implemented. Other positive initiatives (e.g. MTEF, internal and external audit) are longer-term institutional reforms which will require continued support over the medium- to long-term in order to impact fully on the PEFA scores.

Taking each section in turn:

Credibility of the Budget

The indictors covering credibility of budget deteriorated slightly. Aggregate expenditure in 2008 PEFA exceeded budgeted expenditure considerably more than in the 2006 PEFA due to higher revenues. This reflects cautious forecasting but also significant additional revenues from increased imports. These increased revenues were allocated to supplementary budgets considered necessary for further investment and spending on key government programmes. On the other hand the improved budget performance has resulted in a significant reduction in expenditure arrears from 2006 to 2008. This indicator also benefited from technical changes which improved the quality of reporting through a regular aging analysis.

Comprehensiveness and Transparency

There were no changes to any of the scores under this category however there are a number of significant initiatives which may impact the scores in future assessments. Ongoing work on updating the budget classification is almost complete and will be implemented in 2010. Improvements in the reliability of financial data resulting from the requirement for major SEs to have an independent audit will improve the quality of fiscal risk data. Finally, whilst not impacting the scoring it should be noted that the Government has reduced the number of (budgeted) ear-marked special funds from 15 to 7 in the period under review.

Policy Based Budget

Aggregate scoring for the indicators under this grouping has improved slightly from 2006 to 2008. Firstly slippages in the budget timetable were more serious and of a longer duration in 2006. Also some issues relating to the reconciliation between the budget and MTEF aggregates were explained in the budget documents in 2008.

Revenue Collection and Management

None of the underlying scores under this grouping has changed. The indicator for the overall effectiveness of the collection of tax payments continues to be low (D+) as the GOM has still a problem of tax arrears despite write-off of non-Customs arrears. Improved tax administration will result from the planned introduction of more efficient work practices as well as improved systems, computerisation and the introduction of a systems approach to tax audits.

Predictability and Control in Budget Execution

This group of indicators has shown the most significant improvement since 2006. Firstly, the implementation of the Single Treasury Account has improved the management of cash. Secondly, the new Law on Public Debt, State Guarantees and

[1] Denoted by an upward arrow in the Assessment.

On-Lending was implemented and the MOF has enhanced the debt management software and reconciliation procedures. Thirdly the scoring of the procurement improved as the percentage of contracts awarded under open competition increases. Finally, the Assessment Team were able to observe the processes underpinning the payroll function at a number of line ministries, which improved the rather conservative rating of that indicator in 2006.

Accounting, Recording and Reporting

This group of indicators showed a slight improvement from 2006 to 2008. All indictors remained unchanged except for the timeliness and regularity of accounts reconciliation. The reason is that the introduction of the Single Treasury Account enables all transactions of the State Treasury to be accessed in real-time through the on-line account at the NBM. Reconciliations between Bank and ST records are performed on a daily basis.

External Scrutiny and Audit

The Assessment noted the significant institutional change and capacity building programme being instituted in the Court of Accounts. This program is most positive although translating this work into improved scores will take time. The level of legislative scrutiny of audit reports continues to score poorly (D). This is partly a result of the institutional framework in Moldova (the Court system).

Donor Practices

While there has been a slight improvement in this group of indicators the overall scores continue to be poor. Deviations from planned to actual budget support (D-1) indicate that conditionality triggers may have been unrealistic with respect to timing, but also point to bureaucratic delays on the part of some of the donors.

Appendix 1: Links between the six dimensions of an open and orderly PFM system and the three levels of budgetary outcomes

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A1 Budget credibility	*In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.*		
The budget is realistic and is implemented as intended	The budget has not suffered from cuts but has achieved a surplus, resulting from increased revenue fuelled by high import level resulting from remittances and investment. The level of arrears is on the decline and is low.	The challenge will be to better forecast revenue while at the same time maintaining the more cautious stance which is necessary given the nature of revenue sources. This will allow a better allocation of resources at the planning stage rather than increasing allocations during the budget execution stage. Presently, the additional revenues are used to increase investments. The opportunity to improve the capital stock will need to be carried out using improved project selection and appraisal methodologies.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
A2 Comprehensiveness and transparency	*Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.*		
The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget		All expenditures and revenue are included in the Budget. The SSIB and CIFMA are formulated with their respective Line Ministries who are responsible for setting policy and the levels of services provided by the Funds. Special Funds and Means are included in the budget and linked to the relevant sector. Number of special funds has been reduced from 16 in Year 2005 to 7 in 2008 with further reductions planned. Availability of information on the budget and scrutiny of the budget by Parliament	

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
		and its Economic Policy, Budget and Finance Committee provides adequate transparency.	
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The adoption of the MTEF ensures that government policy is linked to planning in the context of a resource envelop which is realistically set.	The budget calendar provides sufficient time for due deliberation by Cabinet and Parliament (Economic Policy, Budget and Finance Committee) to establish ministerial ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within ministries is yet to be as developed as the macro aspects of the MTEF and the MTEF and NDP needs to be more fully aligned. At present the strategic allocations are driven more by the MOF than individual LMs though they do participate in the process. The next stage of the MTEF needs to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum service delivery
B1. Predictability and control in budget execution	*Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.*		
The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds	Audit and debt management and the application of modern computer systems which are not as good as it could be, reduces tax raising potential. The execution of the budget is based on planned allocation limits that are conveyed to budget holders.	Less revenue collected than could be possible means that more resources could be available for spending or tax rates are higher than they need to be. Budget execution and control is based on the set budget both in terms of institutions and line item economic categories.	The rigidity of monthly cash limits may mean that inputs are not supplied when they are needed. However, monthly cash limits for any institution

	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
	These limits are based on revenue forecasts and are revised on a needs basis rather than monthly and are set to endure fiscal discipline is maintained. The controls are set up to implement the rigid monthly cash limited during budget execution and do not allow for recording of financial commitments.		are based on the requirements of the institution in terms of potential need constrained by overall cash availability. This ensures that service delivery is part of the decision making process but cash availability is the ultimate deciding factor. The rigid monthly cash limit budget execution system ensures fiscal discipline, but potentially at the expenses of efficient service delivery as inputs may be provided according to cash availability rather than when needed to deliver services. This is minimised when there is no rationing of cash. Improved balance between short term borrowing plus revenue from taxes and expenditures over the year in the context of A1.1 would smooth out service delivery Financial inspection focuses on top-down compliance rather than on improvements to overall financial management systems which could contribute to improved service delivery. Modern procurement practices need to evolve to ensure that budget agencies get value for money in the procurement of goods and services.
B2. Accounting, recording and reporting **Adequate records and information are produced, maintained and disseminated to meet decision-making**	*Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.*		
	Cash balances are maintained on a daily basis through the STA and monthly expenditure and revenue reports are produced to ensure adequate decision- making information.	Information on actual expenditure against budget is provided at a disaggregated level.	The data that is being recorded will limit the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages.

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
control, management and reporting purposes			
C1. Effective external scrutiny and audit	*Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.*		
Arrangements for scrutiny of public finances and follow up by executive are operating	There is scrutiny of the overall fiscal position both at cabinet and parliament level	Scrutiny though COA is based on control, rather than audits which meet international standards. Performance audits have still to be fully developed and parliament needs to build capacity to fully evaluate the results of the work of the COA.	Performance audits reporting to Parliament has yet to be fully developed although COA has started pilot audits.

1: Introduction

The Government of Moldova is implementing an ambitious public finance management reform program with support of the donor partners. One of the main instruments for support in this area is the Public Finance Management project launched in early 2006 and financed by the World Bank, the Dutch Government and SIDA. The project contributes to improved efficiency and transparency in management of public finances through strengthening national public budget planning and execution methodologies, introducing a modern integrated financial management information system, supporting the establishment of the government internal audit function, developing sustainable in-country training capacity in PFM related thematic areas. In addition, targeted programme for strengthening institutional capacity of the Court of Accounts (Moldova's Supreme Audit Institution) was put in place with support from the Swedish National Audit Office, the World Bank, the Dutch Government and DFID.

The Ministry of Finance and the World Bank team are currently evaluating the progress achieved over the first two years of implementing the programme. In this context, Moldova's MOF expressed an interest in integrating the PEFA PFM performance measurement framework into the ongoing PFM program results framework.

The GOM already has practical experience with the application of the PEFA indicators. The first PEFA PFM performance measurement report, prepared on MOF's request, was finalized in June 2006. The experience supported jointly by several donors, was both interesting and informative. One of the purposes of the 2006 Report was to use it as a baseline study for the PFM project.

It was recently agreed with the MOF to update the PEFA PFM performance assessment on the basis of the data for 2005-2007. The Moldova's MOF is particularly interested in tailoring the PEFA PFM assessment update to the country circumstances and the ongoing programme needs. The World Bank and DFID provided financing for the PFM assessment update. EC also took an active interest in its preparation.

The first visit of consultants[2] to Moldova took place from 6th to 20th April 2008. During this period the current situation was assessed by reviewing background documents, collecting necessary data and interviewing key Government and Donor officials working within the public financial management system of Moldova[3]. A preliminary discussion of findings was held with the Deputy Minister of Finance and ministry officials. The draft report was distributed to interested parties for review and comments on 2nd May, 2008 and a translated version was distributed on 16th May, 2008. Comments were received from the PEFA Secretariat, World Bank, IMF, DFID, EC and relevant Government of Moldova officials who had been involved with the exercise.

A second mission took place on 29th May 2008 to June 6th 2008 to discuss comments and agree the draft report and fill in information gaps. The draft final report was presented to Government and donors at a workshop on June 5th 2008. This final report is based on the comments and discussions on the draft report.

In Moldova, public finances cover the Central Government, the Administrative Territorial Units (ATUs), a Compulsory Insurance Funds for Medical Assistance (CIFMA) and a State Social Insurance Budget (SSIB). The report identifies the share of public expenditures that is made by each of these budgets (funds). The analysis of PFM for the most part focuses on central government, but where there are areas of overlap, the other agencies are included in the analysis. In the appropriate indicators, it has been possible to include an analysis of the contribution of CIFMA and SSIB. Detailed review and analysis of expenditure implemented

[2] The PEFA assessment team comprised John Short (REPIM www.repim.org.uk), DFID funded consultant, covering budget, tax and donor issues, and team leader; Andy Mackie, World Bank funded consultant, covering accounting, audit and treasury issues. Elena Nikulina and Andrei Busuioc of the World Bank also participated in the mission. Liudmila Caziuc organised meetings and logistics.

[3] A list of government and donors counterparts met during the Mission is included in Annex 2.

by local governments (ATUs) are not carried out save for examination of the wage function. However the operation of transfers from the centre to local government (ATUs) is examined in line with the PEFA guidelines. Some eighty-seven percent of public expenditure in Moldova has been subjected to the PEFA assessment methodology.

The Moldovan Constitution provides for two tiers of elected local government. The upper tier consists of 32 *rayons*. These are in divided into *primarias*, which may consist of a single town (such as the seat of the rayon) or a district containing several villages. The cities of Chisinau and Balti are considered upper tier governments, as is the Special Administrative District of Gagauzia. There are a total of 896 lower tier local governments.

Local governments perform several distinct categories of functions. Education is by far the largest single item of local expenditure, accounting for half the total in 2007. Local governments are responsible for managing and financing individual schools, including paying the costs of teachers salaries, heating, lighting, school lunches and building maintenance. With respect to social assistance local governments are responsible only for the costs of targeted subsidies for public transport and other municipal services (such as district heating) and the salaries of certain social workers. Social assistance accounts for eight per cent of local government spending. Local governments have virtually no financial role in the provision of *health care*. Although upper tier local governments are the legal owners of most primary and secondary health facilities (i.e., rayon hospitals and their affiliated family doctor centers) virtually all funding for such facilities now comes from the CIFMA which finances salaries, pharmaceuticals, utilities, and building maintenance. Spending on health consumed less than two percent of local government expenditures in 2007.

Lower tier local governments are responsible, *inter alia*, for urban solid waste collection and management, construction and maintenance of drinking water systems, sewerage systems and waste water treatment facilities, district heating, construction, maintenance, and lighting of streets and local public roads and local public transportation. Upper tier local governments are responsible for the construction and maintenance of rayon-level roads, the organization of inter-urban transport (including the management of bus terminals ‘of rayonal interest’ and ‘other public projects of rayonal interest.’

The relative sizes of the various components of the national public budget are

Table 1: Moldova: Structure of the Public Sector

	2004	2005	2006	2007
Public Expenditure as % of GDP	35.1	37.0	40.2	42.0
Of which State administered	14.5	15.5	15.7	18.1
Of which ATU administered [1]	9.1	8.8	11.3	10.5
Of which SSIB administered [2]	8.6	9.8	9.7	9.8
Of which CIFMA administered [3]	2.9	2.9	3.5	3.6
1. Includes transfers from the State Budget. as % of GDP	2.7	2.7	4.8	4.6
2. Includes transfers from the State Budget. as % of GDP	1.4	1.9	1.5	1.5
3. Includes transfers from the State Budget. as % of GDP	2.0	2.2	2.2	2.2

2: Country Background Information

2.1. Description of the Country Economic Situation

The population of Moldova[4] declined to an estimated 3.58 million in 2007 compared to the turn of the century due to a combination of emigration taking advantage of economic opportunities outside of the country and the crude death rate outstripping the birth rate.

The period from 1998 has produced marked improvements in Moldova's health indicators with infant, under-5 and maternal morality rates declining significantly as shown in Table 2 below. Life expectancy at birth for all citizens improved. The provision of education and health services has also improved using student teacher ratios and medical staff per 10 000 citizens as proxies. Moldova's performance in meeting the Millennium Development Goals (MDG) is positive (UNDP Human Development Report 2005).

Table 2: Moldova: Social Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (millions)	3.656	3.650	3.644	3.635	3.628	3.618	3.607	3.600	3.590
Birth rate (per 1,000)	11.3	10.6	10.2	10.0	9.9	10.1	10.6	10.5	10.5
Crude death rate (per 1,000)	10.9	11.3	11.3	11.0	11.6	11.9	11.6	12.4	12.0
Natural increase (per 1,000)	0.4	-0.7	-1.1	-1.0	-1.7	-1.8	-1.7	-1.9	-1.5
Infant Mortality rate (per 1,000 live births)	17.6	18.2	18.3	16.3	14.7	14.4	12.2	12.4	11.8
Under 5 mortality rate	22.8	23.9	23.3	20.3	18.2	17.8	15.3	15.6	14.0
Maternal mortality rate (per 100,000 births)	36.3	28.6	27.1	43.9	28.0	21.9	23.5	18.6	16.0
Male life expectancy at birth	64.0	63.7	63.9	64.5	64.4	64.5	64.5	63.8[/1]	64.6
Female life expectancy at birth	71.4	71.0	71.2	71.7	71.7	71.6	72.2	71.7[/1]	72.2
Student teacher ratios									
School, gymnasium, lyceums	14.5	14.9	14.9	14.6	14.5	13.6	13.3	13.0	12.0
Vocational Schools	20.3	9.2	9.9	10.0	10.3	10.3			
Colleges	12.4	11.5	10.5	8.5	8.9	10.6	12.4		
Universities	15.5	16.2	14.9	16.3	17.3	18.2	19.4		
Doctors per 10,000	40.6	36.7	35.6	35.4	35.4	35.1	34.9	34.9	35.4
Nurses per 10,000	94.9	83.9	80.5	76.1	76.1	74.1	72.3	77.8	77.2
Hospital beds per 10,000	112.4	82.0	76.0	69.0	67.6	66.8	64.2	63.9	62.7

Source: Moldova Economic Trends September 2005, Statistical Yearbook of Moldova; National Development Strategy and HDR 2007/8[/1]

Real GDP growth since 1999 has been positive (Table 3) and has been in excess of 6 percent in each year since 2000 reaching 7.5 per cent in 2005. The decline to 4.8 percent in 2006 and a further fall to 3 percent in 2007 reflected the wine export embargo, the drought and the price increase in gas supplies from Russia. Per capita GDP has grown by 4.4 times in Lei terms between 1999 and 2007 and 3.8 times in dollar terms. Contributing factors were the stabilization of eastern markets, primarily Russia (apart from 2006), rising domestic demand due, inter alia, to increasing money inflows from labour migrants, and restrictions on the growth of money supply, which helped reduce inflation. The structure of the economy has changed since 1999 with the share of agriculture declining from just under 25 per cent in 1999 to 15 percent in 2006 and trade also declining in importance. The share of transport has grown most. The non-state sector became dominant. In 2002 its share in GDP was 75%, with a share of over 80% in industrial manufacturing, over 95% in retail trade, almost 100% in the

[4] After the collapse of the Soviet Union, the region on the left bank of the Nistru River (Transnistria) no longer accepts the constitutional authority of the Government of Moldova. Before the breakup, this region accounted for about 40 percent of Soviet Moldova's GDP, 15 percent of its population, and 12.5 percent of its territory. It was also home to the bulk of Moldova's industrial base.

agrarian sector, and 54% in the sector of paid services. Economic outcomes, including the rate of growth, are now mainly determined by the activity and performance of the private sector.

An inflation rate in excess of 30 percent in 1999 and 2000 had been reduced to 5.3 per cent in 2002, but has crept upwards in the two following years to 12.4 percent, before declining to 11.9 per cent in 2005 and further upwards to 12.7 per cent in 2006 with a slight decline to 12.3 per cent in 2007.

Table 3: Moldova: Economic Indicators

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP Lei million	12,322	16,020	19,052	22,556	27,619	32,032	37,652	44,754	53,354
Of which Agriculture %	24.9	25.4	22.4	21	18.3	17.6	16.4	14.5	9.9
Of which Industry %	17	16.3	18.7	17.3	17.6	17	15.8	14.7	14.8
Of which Construction %	3.3	2.7	3.1	3	2.9	3.4	3.3	4.0	4.8
Of which Trade %	15.3	12.5	12	11.1	10.8	10.6	10.4	11.5	12.0
Of which Transport %	8.2	9.6	10.4	10	10.8	11.8	12.2	11.8	12.1
GDP lei per capita	3,376	4,396	5,241	6,218	7,633	8,880	10,458	12,467	14,903
GDP $ per capita	321	354	407	458	548	720	830	952	1,232
Real GDP Growth		2.1	6.1	7.8	6.6	7.4	7.5	4.8	3.0
Consumer Price Inflation (An Av %)	39.3	31.2	9.6	5.3	11.6	12.4	11.9	12.7	12.3
Export of Goods ($m)	463,4	472	566	644	790	985	1,091	1,052	1,342
Import of Goods ($m)	586,4	776	892	1,038	1,402	1,769	2,292	2,693	3,690
Trade Balance ($m)	-123	-304	-326	-394	-612	-784	-1,201	-1,641	-2,348
Current Account Balance ($m)		-98	-27	-20	-130	-46	-226	-387	-395
Foreign Exchange Reserves excl. Gold ($m)		222	228	268	302	470	597	775	1,333
Foreign Exchange Reserves months of imports		3.4	2,5	2,5	2.1	2.7	2.6	3.0	3.7
Total External debt ($m)		1,740	1,675	1,816	1,918	1,973	2,079	2,523	3,300
Debt servicing rate, paid (%)		20.9	17	10.4	8.4	10.7			
Exchange rate, Lei/$ (annual average)	10.5	12.4	12.9	13.6	13.9	12.3	12.6	13.1	12.1

Source: Statistical Yearbook of the Republic of Moldova

With respect to the external account, exports grew by a factor of 2.9 from 1999 to 2007 while imports grew by a factor of 6.3. However, both the current account balance and foreign exchange position do not reflect such a precarious imbalance in the trade in goods as remittances from overseas have been high contributing to some 34 percent of GDP. The lei appreciated against the dollar in 2004 (reflecting in part dollar weaknesses), but it has depreciated since then.

Poverty Profile

In 2004, 14.7% of the population lived in extreme poverty and 26.5% lived in absolute poverty. These percentages increased in 2005 to 16.1% and 29.1% reflecting the downturn in the economy. Nevertheless, this situation compares favourably with 1998, and particularly 1999 and 2000 when there had been a decline in living standards. Table 4 shows the evolution from 1998 to 2005 of various poverty measures, calculated at the total national level. On all the measurements of poverty, Moldova has experienced a significant improvement. Nevertheless, Moldova's Gini index was 39 in 2000 and improved to 36 in 2004 before declining in 2005 to 38. An index of 100 represents perfect inequality and zero prefect equality.

Table 4: Moldova: Poverty Indicators

	1998	1999	2000	2001	2002	2003	2004	2005
Absolute Poverty								
Rate	52.0	73.0	67.8	54.6	40.4	29.0	26.5	29.1
Gap	19.5	32.3	27.0	19.3	12.4	7.3	6.8	8.0
Severity	9.8	17.7	13.7	9.1	5.2	2.7	2.5	3.2
Extreme Poverty								
Rate	37.4	59.7	52.2	38.0	26.2	15.0	14.7	16.1
Gap	12.4	22.7	17.6	11.6	6.6	3.1	3.2	4.0
Severity	5.9	11.4	8.2	5.1	2.4	1.0	1.1	1.5
Poverty rate (expenditure per equivalent)	31.9	53.2	45.0	23.2	21.0	11.5	11.4	
Gini coefficient by consumption expenditures per capita (weighted)			39	39	37	36	36	38

Source: Moldova Economic Trends September 2005 and National Development Strategy

The poverty measurement indicators are calculated based on the Household Budget Survey (HBS). Essential changes were made to the HBS from 2006: the sampling framework changed, the questionnaires for data collection were improved, and a single data collection network was established for research. These changes contributed to an improvement in the quality of data and to the alignment of the poverty measurement methodology to international standards. The disadvantage of these changes is that the 2006 data are not compatible with previous years. The data show that 30.2% of the population were under the absolute poverty line and 4.5% under the extreme poverty line in 2006. The low value for the extreme poverty rate suggests that the problem of food poverty may no longer be as relevant as in the past. The difference between the absolute poverty rate and the extreme poverty rate is considerably higher compared to previous years. This is explained by the change in the structure of household consumption in the 2006 HBS, as compared to the previous structure. In 2006, the poverty gap was 8% in relation to the absolute poverty line and 1% in relation to the extreme poverty line. In 2006, the inequality of the consumption level overall for the population of Moldova, as measured by the Gini coefficient, was 31.5.

Table 5 present the Human Development Index (HDI) which is a summary measure of three dimensions of human development: leading a long and healthy life (measured by life expectancy at birth); being knowledgeable (measured by literacy and school enrolment); and having a decent standard of living (measured by GDP per capita). HDIs taken from two sources; Moldova Social Trends and UNDP's 2005 Human Development Report are shown.

Table 5: Moldova :Human Development Index

Source	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Social Trends		0.689	0.695	0.698	0.701	0.694	0.699	0.707	0.701			
UNDP HDR	0.739	0.682					0.665			0.671	0.691	0.708

Moldova falls in the Medium Human Development category (0.5 to 0.799) and is ranked 111 out of 177 countries in the UNDP report.[5] While there are differences in the index between the two sources[6], the most interesting feature of Table 5 is the decline in the (UNDP) HDI of 0.739 in 1990. This decline is attributed to a substantial collapse in per capita income with an annual average fall of 5.7 percent between 1990 and 2003. In 1990, per capita income was estimated to be $3,974, but by 2003 it had plummeted to $1,510 (measured by Purchasing Power Parity dollars). In 1990, Moldova was ranked 55 out of the 136 countries for which a HDI was computed.[7]. It can be inferred from this that Moldova had improved its performance

[5] Iceland was ranked first with a HDI of 0.968 and Sierra Leone 177th with an HDI of 0.336.
[6] Explained by difference in data with UDNP adopting a standardised approach for all countries, which may make adjustments to national data.
[7] Canada ranked first with a HDI of 0.929 and Niger last with a HDI of 0.249

in the health and education indicators since 1990 as all three components of the HDI are given equal weight.

Overall government reform programme and rationale for PFM reforms

The National Development Strategy (NDS) for 2008-2011 is the main internal medium-term strategic planning paper*,* which defines the development objectives up to 2011 and identifies the priority measures and actions for their achievement. The Strategy serves as a vehicle for the integration of the current strategic framework, alignment between the budgeting process (MTEF) and the policy framework, and absorption of external technical and financial assistance. In order to target available resources to meet objectives and measures with maximum impact on economic and social development, the NDS focuses on a limited number of strategic priorities.

The key objective of the NDS is to create the conditions for improved livelihood of the population. This is to be achieved by strengthening the foundation for robust, sustainable and inclusive economic growth. In this context, the spirit and vision of the NDS aspire towards Moldova's alignment with European standards and, consequently, to the accomplishment of integration within the EC. All priority development areas set forth in the Strategy aim at adjusting relevant national policies to European ones. During the Strategy's implementation the Government is to pay special attention to issues identified in the Progress Reports developed by the European Commission under the European Neighbourhood Policy.

The Strategy aims at continuing the successful reforms initiated in the past and promotes new and coherent policies that would ultimately lead to a better life for the country's citizens.

The NDS and Action Plan are focused on five priorities:

Priority 1: Strengthening democracy based on the rule of law and respect for human rights.
Priority 2: Settlement of the Transnistrian conflict and reintegration of the country.
Priority 3: Enhancing national economy competitiveness.
Priority 4: Human resources development, enhancing employment and promoting social inclusion.
Priority 5: Regional development.

To achieve these priorities, two main prerequisites have been identified:

I. **Ensuring macroeconomic stability**. This is based on implementing the following measures:

1. ensure and maintain price stability;
2. promote a flexible national exchange rate policy;
3. promote a balanced budgetary-fiscal policy to ensure public finance stability in the medium and long term;
4. reduce fiscal pressure in the economy and prevent public sector expansion;
5. improve public financial management.

II**. Consolidating the capacity of public administration.** This is designed to achieve the following major objectives:

1. **at Central Level**:
   - separate in practice the functions of policy development and those of policy implementation within central public administration;
   - strengthen central public administration's capacity for policy analysis, monitoring and evaluation, and improve the decision-making and reporting system;
   - form a body of professional public servants by introducing a new incentive system;
   - develop efficient and sound interaction between policy development process and the budgetary process.

2. **at Local Level**:
    - improve the institutional framework and include stable development principles into the local policies;
    - separate clearly the functions and responsibilities between the central and local public administration by enhancing the autonomy of the latter;
    - consolidate the local autonomy of local public administrative authorities by continuing the fiscal and financial decentralization process;
    - strengthen local authorities' capacities on budget planning, development, implementation, monitoring and assessment of activities at local level;
    - implement the Civil Servant National Training Strategy and create conditions for improving human resources management.

The Government of Moldova has agreed a Memorandum of Economic and Financial Policies with the IMF under a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). This agreement is consistent with the National Development Strategy (NDS) as well the action plan agreed between the European Union and Moldova. Under the agreement, fiscal policy will remain tight, given continuing high inflation and the need to ensure macroeconomic stability.

With respect to Public Finance Management, the long-term objective is the establishment of a system matching European standards. The reform agenda includes:

- improving public finance allocation by applying modern practices of budget preparation;
- improving financial discipline by developing the treasury system and budget execution procedures;
- improving public debt management to minimize servicing costs;
- improving fiscal administration and increasing the effectiveness of financial control;
- rationalizing and optimizing budget management by creating an integrated financial management information system; and
- harmonizing the budget, fiscal legal and regulatory framework with European Union requirements and standards.

One of the main instruments supporting Public Finance Management reform is PFM project co-financed by the World Bank, the Dutch Government and SIDA. The project contributes to improved efficiency and transparency in management of public finances through strengthening national budget planning and execution methodologies, introducing a modern integrated financial management information system, supporting the establishment of the government internal audit function, developing sustainable in-country training capacity in PFM related thematic areas. Strengthening of Medium-Term Expenditure Framework is supported by a parallel DFID project. In addition, targeted programme for strengthening institutional capacity of the Court of Accounts (Moldova's Supreme Audit Institution) was put in place with support from the Swedish National Audit Office, the World Bank, the Dutch Government and DFID. DFID is also supporting the National Development Strategy process and its implementation through the Line Ministries and strengthening the linkage with the MTEF.

The Government is also pursuing reforms aimed at Improving the Efficiency and Management of Public Sector Resources. The Government has set out an ambitious reform agenda aimed at modernizing the civil service to European standards. While only 30 percent of new civil servants were appointed through a competitive merit basis in 2007, the adoption of a civil service law should accelerate this trend. The Government has also taken steps aimed at addressing the problem of low pay in the civil service and increasing the transparency and equity of the civil service remuneration system. Civil servant salaries have increased, while still preserving the prudent fiscal stance, and the base component of pay has increased from 25 to 50 percent to total remuneration. The development of a new civil service wage system is being implemented. The establishment of analysis, monitoring and policy evaluation units has helped strengthen the linkages between the Government's policy priorities and the budgetary process.

2.2. Budgetary Outcomes

Table 6 presents the aggregate budget and fiscal position in Moldova from 2002 to 2006, including SSIB and CIFMA.

Table 6: Moldova: Budget and Fiscal Indicators as per cent of GDP

	2002	2003	2004	2005	2006	2007
Revenues	32.5	34.1	35.4	38.6	39.9	41.8
Direct taxes	4.9	5.1	5.6	5.1	5.4	5.6
Indirect taxes	13.4	15.1	15.1	17.2	18.1	18.5
Other taxes and revenues	3.5	2.8	2.4	2.9	2.8	3.3
Grants	0.6	0.3	0.4	1.2	0.7	1.7
Revenues of extra budgetary funds	0.2	0.3	0.3	0.4	0.5	0.4
Revenues from extra budgetary resources	2.7	3.4	2.9	2.9	2.8	2.5
SSIB revenues	7.2	7.1	7.7	7.8	8.3	8.1
CIFMA revenue	0.0	0.0	1.0	1.1	1.2	1.5
Expenditures	34.3	33.1	35.1	37.0	40.2	42.0
Discretionary expenditures	32.1	37.0	32.7	35.8	39.2	40.8
of which :						
State General Services	2.3	2.2	2.3	2.4	2.3	2.4
External activity	0.5	0.6	0.5	0.7	0.5	0.5
Justice and constitutional jurisdiction	0.2	0.3	0.3	0.3	0.4	0.4
Public order, defense and national security	3.0	2.7	2.5	2.4	2.5	2.9
Social and cultural expenditures	21.4	20.7	22.0	23.4	25.6	26.4
o/w Education	6.9	6.7	6.8	7.2	8.1	8.0
o/w Health	4.0	4.0	4.2	4.2	4.8	4.9
o/w Social Protection and Assistance	9.8	9.3	10.2	11.3	11.5	12.4
Science and innovation	0.2	0.2	0.3	0.4	0.4	0.6
Economic expenditures	3.7	3.6	4.2	5.2	6.1	7.1
Environment protection and hydrometeorology	0.1	0.1	0.2	0.1	0.2	0.2
State debt service	2.2	2.1	2.4	1.2	1.0	1.2
Internal	0.6	1.2	1.2	0.5	0.5	0.8
External	1.5	0.9	1.2	0.7	0.5	0.4
Others	1.0	0.7	0.7	0.8	1.2	0.6
Net lending	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2
Surplus(+)/Deficit(-)	-1.7	1.0	0.2	1.5	-0.3	-0.2
Financing						
Net Internal	2.0	0.1	2.6	0.4	0.1	-0.3
NBM	1.1	0.0	1.9	-0.3	-0.3	-0.3
Net Commercial Banks	0.8	0.1	0.8	0.7	0.4	0.0
Direct Lending	0.0	-0.2	0.2	0.1	0.1	-0.2
Government Notes	0.8	0.4	0.6	0.5	0.3	0.2
Net Non Banking	0.0	0.0	-0.1	0.1	0.0	0.0
Net External	0.2	-0.5	-1.9	-0.1	0.5	0.2
Disbursements	2.1	1.2	0.9	0.9	0.9	1.1
to Investment Projects	1.5	1.2	0.9	0.9	0.9	0.8
Budget support	0.6	0.0	0.0	0.0	0.0	0.2
Amortisation	2.0	1.7	2.7	1.0	1.4	0.8
Privatisation Receipts	0.8	0.4	0.3	0.5	0.9	0.8
Changes in account balances	1.3	1.0	1.2	2.3	0.2	0.5

Source: Ministry of Finance

The salient features of this table with respect to expenditures are:

- Revenues increased annually from 34.3 percent of GDP in 2002 to 42.0 percent of GDP in 2007.
- Discretionary expenditures on services increased from 32.1 percent of GDP in 2002 to 40.8 per cent in 2007.
- Social and Cultural services received the largest single share and has been on an upward trend.
- There was the continued decline in debt service interest payments (which had been 7 percent of GDP in 1999) to 1.2 percent of GDP in 2007.

With respect to revenue, indirect tax revenues became a more important source of funding over time reaching 18.5 percent of GDP in 2007. Direct tax revenue to the national public budget amounts to 15.2 percent of GDP, with 63.5 percent of total direct tax revenue as SSIB and CIFMA contributions.

The budget deficit swung from 1.7 percent of GDP in 2002 to a surplus of 1.5 percent of GDP in 2005. In 2006 and 2007, there was a deficit of 0.3 and 0.2 per cent of GDP.

Table 7 presents expenditure by economic category. Gross personnel emoluments (including the labour remuneration and social contributions to SSIB and CIFMA) declined to 7.8 as a percentage of GDP in 2004 but rebounded to 9.3 per cent of GDP in 2007. This trend reflects a falling behind in public sector wages relative to the private sector and the Government's efforts to rectify the situation when funds become available. Expenditure on goods and service are on an upwards trend to 8.7 per cent of GDP in 2007. Transfers to persons (under social insurance) became the largest category in 2004 and has continued to grow as a share of GDP. The upward trend in capital expenditure reflects increased revenues allocated for investment.

Table 7: Moldova Public Expenditure by Economic Category (as % of GDP)

	2002	2003	2004	2005	2006	2007
Personnel Emoluments	9.5	9.6	7.8	8.0	9.3	9.3
Goods and Services	6.9	6.2	7.8	7.7	8.1	8.7
Transfers for Production Purposes	1.4	1.6	2.0	2.6	2.3	3.3
Transfers to Population	9.1	8.8	9.7	10.8	10.9	11.2
Other	0.6	0.5	0.6	0.7	0.7	1.0
Capital	5.0	4.6	5.0	6.2	7.9	7.6

Source: Ministry of Finance

Moldova has both SSIB and CIFMA which are financed by employee and employer contributions and some transfers from the State Budget to cover the expenditure of those not covered by the Funds. The revenue and expenditures of the SSIB and CIFMA are included in Table 8.

Table 8: Moldova SSIF and CIFMA (as % of GDP)

	2004	2005	2006	2007
Own Revenue				
SSIF	7.7	7.8	8.2	8.2
CIFMA	1.0	1.1	1.2	1.6
Transfers from State				
SSIF	1.4	1.9	1.5	1.5
CIFMA	2.0	2.2	2.2	2.2
Expenditure				
SSIF	8.6	9.8	9.7	9.8
CIFMA	2.9	2.9	3.5	3.6

Source: Ministry of Finance

2.3. Legal and Institutional Framework for PFM

The Constitution is the supreme law of the country and was passed by the National Parliament on July 29, 1994, with subsequent amendments. The Constitution provides Parliament as the supreme representative organ and the single legislative authority of the State. The Government is a body formed by the Prime Minister, Deputy Prime Minister, and Ministers to formulate and implement policy of the State and provide general leadership of the public administration. The President of the Republic of Moldova, after consultation with the parliamentary majority, nominates the Prime Minister and Government which is approved by a vote in the Parliament.

The Law on Government was adopted on May 31, 1990 with a number of amendments introduced by laws of the Republic of Moldova. The latest amendment was dated March 27, 2008. The relevant legal framework for PFM is the Organic Law on Budgetary System and Budgetary Process (1996) and the Law on Local Public Finance (2003) supplemented by Cabinet regulations, instructions and recommendations issued by the Ministry of Finance (MOF). For example provision for the Medium Term Budget Framework (MTBF) (the equivalent of the MTEF) is part of the Organic Law on Budgetary System and Budgetary Process. The legal framework for regulating the national public budget` revenues includes the Tax Code (April 1997 as amended), Customs Code (July 2000), Law on Customs Tariff (Nov 1997, as amended), Law on Public System of Social Insurance (July 1999) and Law on Mandatory Health Insurance (Feb. 1998), Law regarding the rate, method and terms for payment of the obligatory medical insurance contribution (December 2002). Tax revenue is collected through two separate services – State Tax Service and Customs Service. The financing of Local Administration is covered in Law on State Budgetary System and Budgetary Process (LSBSP) (no.847-XIII of May 24, 1996) and Law on Local Public Finance (LLPF) (no.397-XV of October 16, 2003), based on the Law on Local Public Administration (LPA) (no.436-XVI of December 28, 2006). These specify the structure of local government into two levels (1 and 2) and how each level is financed and what services are delivered at each level.

The MOF manages the budget process and prepares the annual financial statements of the Government. The MOF's State Treasury (ST) manages cash resources, and supervises accounting procedures. The Financial Control and Revision Service (FCRS) monitors compliance with financial settlements in the public sector. While the MOF coordinates budget preparation, Ministry of Economy and Trade (MOET) prepares the macro forecasts and Line Ministries (LM) input into the process related to their own sphere of activity. Some services are delivered at a sub national level and the ST has territorial offices to manage its work in the budget sector. A new Law on Public Procurement (no. 96-XVI of 13.04. 2007) has recently been passed as has the Law on Public Debt, State Guarantees and On-Lending from State Borrowing, approved December 22, 2006.

The responsibility for the external financial examination of public revenues and expenditures falls under the jurisdiction of the Court of Accounts (COA), formed according to the Law no.312-XIII of December 8, 1994. The COA performs its activity through the its five main departments: control of formation and use of public finance; control of the utilization of budgetary funds by public bodies; control of the management of natural resources and public assets; control of the utilization of SN public finance; and the legal and methodological framework Department. The current functions of the COA focus on the control of formation, administration and utilization of public financial resources, ensuring their compliance with applicable legislation.

The PFM reform agenda is led by the Ministry of Finance with high level support from the Prime Minister's Office. The recently established National Strategic Planning (NSP) Committee chaired by the Prime Minister has replaced the former National Development Strategy Committee. The MTEF Committee, led by the Minister of Finance, reports to the NSP Committee. A MOF PFM task force is responsible for the management of the PFM project. Within that framework, the Service for Financial Revision and Controls leads the reforms of internal financial controls and internal audit, and the Academy of Public Administration is responsible for the training component of the project. The Court of Accounts leads the external audit reform and plays an active role in the broader PFM reform implementation.

3: Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

PI-1. Aggregate expenditure out-turn compared to original approved budget

Aggregate budgeted and outturn expenditure is presented below for 2005, 2006 and 2007 covering aggregate Government expenditure. Included are the expenditures of the SSIB and CIFMA. In each of the years, outturn is above budgeted expenditure and the planned budget is implemented in full. The main reason for the more than budgeted expenditure is greater than budgeted revenue (see PI-3) which reflects in part cautious forecasts but also significant additional revenues from increased imports that reflect consumption and investment funded by remittances and increased direct foreign investments. When these additional revenues have become available, they have been allocated in Supplementary Budgets to public services. There are three options as budget surpluses cannot be carried over to the next fiscal year: unspent revenue to be (i) put on deposit with the NBM or (ii) used to cancel debt or (iii) used to fund primary expenditure. While the first two of these actions would have generated an A score under this indicator, these actions have been not considered desirable from a development stance as there is a need for investment and spending on key programmes. A C score is therefore appropriate which shows a fall from the 2006 PEFA.

Aggregate Government Expenditure
(excluding debt servicing and donor funded projects) mil. Lei

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2005	9,638.8	10,723.7	1,084.9	11.3
2006	13,048.6	14,210.9	1,162.3	8.9
2007	15,549.7	18,020.1	2,470.4	15.9

Source Ministry of Finance Budget Implementation Data

	Minimum Requirements (scoring Method M1)
PI-1. Aggregate expenditure out-turn compared to original approved b	Score C (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.

PI-2. Composition of expenditure out-turn compared to original approved budget

This indicator measures the extent to which reallocations have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of a functional classification, using the absolute value of deviation.

The budgeted and actual expenditure data and the variances in PI-1 above are as follows

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2005	11.3%	15.1%	3.9%
2006	8.9%	9.4%	0.5%
2007	15.9%	15.9%	0.0%

The variances in excess of the total deviation have not exceeded 5% in any of the 3 years, and consequently this gives a score of A. These have been derived from the following ministerial expenditure information, where SSIB and CIFMA have been included in their appropriate functional heading. Recurrent and capital expenditure are included in the calculation.

Functions	2005 Budget	2005 Actual	2006 Budget	2006 Actual	2007 Budget	2007 Actual
State Services with Special Purpose	548.1	584.7	606.9	670.3	760.4	862.7
External Activity	178.2	256.2	254.5	235.3	261.2	282.9
National Defence	162.0	150.7	194.5	209.8	222.9	268.5
Justice and Constitutional Jurisdiction	105.3	126.8	187.6	188.6	208.6	228.2
Public Order and National Security	591.4	659.9	708.9	835.2	968.6	1,064.0
Education	799.0	980.4	1,114.4	1,237.1	1,262.6	1,414.5
Science and Innovation	129.9	139.5	191.4	199.5	278.0	307.8
Culture, Arts and Sports	109.6	145.0	185.4	222.5	203.6	294.4
Health Care	1,581.5	1,407.9	1,895.4	1,895.2	2,393.5	2,447.2
Social Assistance and Support	3,931.9	4,131.1	4,993.1	4,978.5	5,787.4	6,195.9
Agriculture, Forestry, Fishery and Water	248.8	295.7	506.5	510.6	559.6	969.9
Environment Protection, Hydrometeorology	46.2	49.2	56.9	98.4	72.9	111.1
Industry and Construction	13.8	13.2	16.9	32.0	21.1	33.5
Transportations, Roads, Communications and Informatics	152.6	168.2	238.5	357.1	418.2	843.4
Utilities and Housing Fund Maintenance	7.7	9.1	43.4	43.0	10.2	21.5
Energy and Fuel Complex	2.6	1.1	0.8	5.9	0.5	47.5
Other Services connected to Economic Activities	51.3	63.7	71.4	77.7	76.3	130.9
Others	978.9	1,541.3	1,782.1	2,414.2	2044.1	2,496.2
Total expenditure	9,638.8	10,723.7	13,048.6	14,210.9	15,549.7	18,020.1
Composition Variance	9,638.8	10,723.7	13,048.6	14,210.9	15,549.7	18,020.1

Source Ministry of Finance Budget Implementation Data

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score A (i). Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.

PI-3. Aggregate revenue out-turn compared to original approved budget.

Outturn and budgeted revenue data for 2005, 2006 and 2007 are presented below. In each year, actual revenue was higher than that forecast in the budget. Revenue improvements stemmed from increased GDP and continued improvements in tax administration and policy to expand the tax base. Growth in VAT receipts was significant and this has been fuelled by increased imports as a result of remittances and increased foreign investment.

The scoring structure gives a score of A where actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years. As performance has in effect been better than forecast, a score of A is given. The scoring methodology does not in effect recognize underestimation in revenue forecasts, and although an underestimation scoring methodology symmetrical to the overestimation would not be fully justified, consistent underestimation of revenue points to a weakness in revenue forecasts. However in this case, since remittances can be variable, it is appropriate for MOF to be conservative in its revenue forecasting.

Central Government Revenue (Mil. Lei)

	Budget	Outturn	+,-	%
2005	10,545.4	11,988.9	1,443.5	113.69
2006	13,688.9	15,043.1	1,354.2	109.89
2007	16,123.8	18,297.8	2,174.0	113.48

Source Ministry of Finance Budget Implementation Data

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score A (i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.

PI-4. Stock and monitoring of expenditure payment arrears.

(i) Stock of expenditure arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.

The information concerning arrears reflects overdue payments which are in excess of 30 days[8]. This data is aggregated and line ministries and territorial units present data to the State Treasury on a monthly basis. A more detailed aging analysis of arrears from line ministries is sent on a quarterly and annual basis in the execution reports. The table includes internal and external arrears. Internal arrears cover arrears to SSIB and CIFMA from the transfers from the State Budget and these are minimal. External arrears cover arrears from the State to other parties and arrears from SSIB and CIFMA to their clients. Only external arrears are considered for the calculation.

Arrears Classification (Lei Millions)				
	2004	2005	2006	2007
State Budget	5,490.8	7,475.2	10,010.1	12,867.6
Including transfers to SSIB and CIFMA	*1,106.6*	*1,557.3*	*1,662.7*	*1,986.7*
Arrears	218.1	99.7	106.6	66.5
Internal transfers to SSIB and CIFMA	*152.1*	*7.3*	*0.0*	*1.5*
o/w are external arrears	*66.0*	*92.4*	*106.6*	*65.0*
SSIB				
Expenditures	2,760.9	3,697.8	4,378.1	5,244.6
Arrears	7.7	37.8	34.6	37.0
Including transfers received from the state budget	*0.0*	*0.0*	*12.1*	*17.6*
CIFMA				
Expenditures	937.5	1,108.0	1,485.4	1,894.6
Arrears	2.0	22.6	7.3	10.0
TOTAL				
Total Expenditures	8,082.6	10,723.7	14,210.9	18,020.1
Total External Arrears	75.7	152.8	148.5	113.5
Percentage of Total Arrears	0.9	1.4	1.0	0.6

Source: Ministry of Finance

A score of A has been allocated as the stock of arrears is consistently below 2% of total expenditure which is an improvement from the 2006 PEFA

(ii) Availability of data for monitoring the stock of expenditure payment arrears

From 2005 the MOF collects data on payment arrears on a monthly basis which are posted on the MOF website. Information on the aging of arrears is available on a quarterly and annual basis based on execution reporting by budgetary institutions, which is an improvement compared to the situation when the 2006 PEFA assessment was prepared.

The appropriate score for this sub-dimension is A.

[8] 2004 and 2005 arrears data from the 2006 PEFA Report has been restated to reflect the availability of arrears in excess of 30 days.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Score A (i) The stock of arrears is low (i.e. is below 2% of total expenditure). Score A (ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile). Score A

3.2. Transparency and comprehensiveness

PI-5. Classification of the budget

(i) The classification system used for formulation, execution and reporting of the central government's budget.

The current Budget Classification/Chart of Account for the State sector is broadly based upon Government Financial Statistics (GFS) 1986. The classification system used includes:

- Functional classification 20 groups at level 1, but not COFOG compliant
- Economic classification (GFS 1986)
- Administrative classification
- Partial programme classification

As part of the PFM project, MOF has developed a draft for a new classification system based on GFS 2001. The current situation is as follows:

The economic and functional budget classification is now ready for testing and piloting by the MOF. It provides sufficient details and breakdowns in conformity with GFS 2001 analytical framework. The current draft of the future economic classification records all flows and distinguishes revenue, expense, assets and liabilities transactions within the analytical framework of the GFS 2001. This will allow the MOF to prepare reliable fiscal information on a cash basis for general government in line with international statistical standards. The functional classification remains an independent dimension of the budget classification and it is developed by the MOF in compliance with the COFOG framework with the second and third levels linked to programmes and sub-programmes (activities). The development of a full programme classification remains a medium-term objective and is to be coordinated with the NDP and the MTFF which will contribute to identifying and clarifying objectives and policies of the line ministries.

Presently, the organisational classification follows the current structure as presented in the 2008 Budget. The budget agencies, institutions and other budgetary units which functionally belong to one ministry are in general incorporated in the ministries' budgets. However further work is needed to ensure that entities that are legally established as state enterprises but actually carry out government activities in delivery of services are included in general government fiscal reports. This is consistent with GFS 2001.

The draft budget classification should be completed shortly and it is planned that the new economic and functional classification will be introduced starting with budget formulation for 2010.

The GOM is now at a position where there will be full compliance with GFS 2001 classifications and there is a timetable for its implementation. The introduction of a FMIS will offer full compliance with this indicator. However this is yet to be implemented and the current position warrants a C↑ score with the ↑ reflecting the considerable work that has been carried out since the last PEFA.

	Minimum Requirements (scoring Method M1)
PI-5. Classification of the budget	Score C↑. The budget formulation and execution is based on administrative and economic classification using GFS Standards or a standard that can produce consistent documentation according to those standards.

PI-6. Comprehensiveness of information included in budget documentation.

The MTEF report and the annual budget are the two main documents which are produced as part of the budget calendar. While the MTEF document is not required to be approved by Parliament, it is submitted to Parliament for information. Government (Cabinet) approves the MTEF document. The budget proposals based on the updated forecasts are scrutinized by the Committee for Economic Policy, Budget and Finance of the Parliament and approved by Parliament. Ministry ceilings are set out in the MTEF document and ministerial budgets are drafted based on these ceilings. The following elements are included in the MTEF and Budget Documentation.

Element	MTEF	Budget
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes	Yes
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes	Yes
3. Deficit financing, describing anticipated composition.	Yes	Yes
4. Debt stock, including details at least for the beginning of the current year.	Yes	Yes
5. Financial Assets, including details at least for the beginning of the current year.	No	Partially[9]
6. Prior year's budget outturn, presented in the same format as the budget proposal.	Yes	Yes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes	Yes
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	Yes
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes	Yes

	Minimum Requirements (scoring Method M1
PI-6. Comprehensiveness of information included in budget documentation.	Score A Recent budget documentation fulfils 7-9 of the 9 information benchmarks

PI-7. Extent of unreported government operations.

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.

There is no extra-budgetary expenditure. All annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports include all revenues and expenditures.

[9] Financial assets are included in budget execution reports. Starting with the draft budget for 2007, documentation includes the assets of the Government sector (companies, joint-stock companies with government shareholding etc. Software to produce financial assets is to be an output of the PFM project that will generate the information for the budget document.

There are two types of funds that could be considered as analogous to Extra Budgetary Expenditures (EBEs), so called *special funds* and *special means*. S*pecial Funds* are included in the State budget and represent earmarked funds created for various special purposes under different laws (e.g., special fund for school textbooks, etc.). The number of such funds has been reduced from 15 to 7 over the last few years with the intention of eliminating them completely. The expenditure on Special Funds for 2008 represents 1.2 percent of the State Budget. There are also the S*pecial Means* that includes accumulated revenues as fees of public institutions for certain types of services provided and used to finance statutory activities. Special Means constitutes 6.5 percent of total expenditures in 2008 (2007: 8.2 percent). Both special funds and special means are included in the Annual State Budget, are approved by Parliament, and since 2005 have been included in the documentation appearing on the government web site. They are therefore not "*unreported*".

SSIB & CIFMA. These two budgets are prepared in conjunction with the Ministry of Social Protection, Family and Child and Ministry of Health who are responsible for policy and the determination of the "packages" of services offered by SSIB and CIFMA. They are included in the MTEF process as the agencies that deliver services relating to their respective mandates. The MOF has no direct role or oversight although it transfers funds (and monitors the transfer) from the State budget to SSIB and CIFMA which covers appropriate services for those citizens who cannot avail themselves of services through the payment of the statutory levies which fund SSIB and CIFMA.

Execution reports covering the State Budget, SSIB, CIFMA and ATU budget. SSIB and CIFMA are approved by Parliament as separate annual laws. The Financial Information systems within the two budgets are independent of the MOF, although from 1 January 2008 they have been incorporated into the Single Treasury Account. In addition they report monthly to Government, and this information appears on the MOF` website.

Given that there is no evidence of "unreported" government operations a Score A is allocated.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

The majority of Donor funding (and all loans and credits) appear to be included in the budget and in the MTEF. The table shows grants and loans included in the budget for 2005, 2006 and 2007. From the Paris Declaration Survey that Government carried out for 2005 and 2007 donor support to Moldova, a total figure on aid to Government can be established.[10] This is used to score the dimension. To record a B score complete expenditure on at least 50% (by value) of grant funded projects would have to be included in fiscal reports as well as all loan financed projects. This has been achieved in both years where sufficient data are available.

	2005	2006	2007
Included in Budget	$m	$m	$m
Grants	36.5	24.0	78.7
Loans	26.0	31.2	45.6
Total	62.4	55.2	124.3
Total Aid to Government	89.0		155.6
Total Loans	26.0		45.6
Total Grants	63.0		110.0
Grants on Budget as % of total Grants	57.8		71.5

Source: Ministry of Finance and Paris Declaration surveys

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score B+ (i). The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). Score A (ii). Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects. B

PI-8. Transparency of Inter-Governmental Fiscal Relations

(i) Transparent and rules based systems in the horizontal allocation among SN governments (ATUs) of unconditional and conditional transfers from central government (both budgeted and actual allocations).

ATUs in Moldova are decentralised sub national (SN) governments and do not include de-concentrated central government ministries. They include second level Rayons, Balti and Chisinau Municipalities and Gagauzia ATU - in total 35 ATUs. Following the PEFA methodology, this indicator does not cover transfers within the ATUs to lower level local administrations (1st level ATUs).

Inter-budget relations are regulated by the following Acts:

- Law on State Budget System and Process (LSBSP) (no.847-XIII of May 24, 1996)
- Law on Local Public Finance (LLPF) (no.397-XV of October 16, 2003),
- Law on Administrative Decentralisation (no 435-XVI of 28 December 2006).
- Law on Local Public Administration (no 436-XVI of 28 December, 2006).

The allocation of transfers by the central government is based on articles 9, 10 and 11 of the LLPF. The State budget balances the ATU budgets by making transfers which are based on the gap between expenditure needs (based on population according to the demographic categories and a per capita expenditure norm) and the amount collected from the taxes assigned to ATUs. There are provisions for high revenue collecting ATUs and those with high specific expenditure.

Art.10 regulates the formula for determining the transfers between the State budget and budgets of second-level (larger or middle sized level) ATUs, based on transparency and objectivity of the distribution of resources. According to Art.21 of the LLPF, the appointed and authorized bodies of the second-level ATUs shall approve the limits of allocations from the general government revenues and the amount of transfers from the rayon budgets to the budgets of ATUs at first level.

There is a Draft Law on modifying the transfers directly to Level I ATUs and this is a response to problems that have been reported on transfers between Level II to Level I ATUs. The Draft Law envisages direct transfers from the State budget to 931 ATUs compared to the current 35 ATUs. However, this change does not impact on the indicator at present. Once the changes to the system become operational, all transfers to ATUs will fall under the purview of this indicator. The Draft Law will change the process so that funds are transferred directly to level I ATUs from the State based on per capita revenue collected by the ATU first level with equalisation adjustments to lower per capita revenue ATUs from above average per capita revenue ATUs based on the relative average level of revenue collected by ATUs (removing the expenditure component of the current transfer).

The existing transfers stipulated in the current legislation between the Central Government and the ATUs are applied in practice as the legislation is strictly adhered to. This has been

[10] There is some donor aid to Moldova which is not to the government and this is not relevant to this dimension.

confirmed in discussion with ATUs of second/middle and first/lowest levels. All inter-governmental fiscal relations covered by this indicator are regulated by primary legislation and its application is enforced very effectively. These transfers are analysed in detail in the budget documentation.

Score A

(ii) Timeliness of reliable information to Sub National (SN) governments (ATUs) on their allocations from central government for the coming year;

Based on the LSBSP, the Government approves a plan for the development and submission of the draft state budget law for the respective year. According to Art.19 of the LLPF, the MOF, within the established dates, shall present to the executive bodies of the second/middle-level ATUs methodological instructions containing macro-economic projections, main principles of government's policy concerning revenues and expenditures for the coming year (years), projections of the share of allocations from the general state revenues to the respective budgets, as well as certain specific aspects of calculating the transfers, which are planned to be allocated to these budgets from the state budget. In their turn, the second/middle-level ATUs, within 10 days, shall pass the information on these specific aspects to the first/lowest-level ATUs. Finally, the executive bodies of the first/lowest-level ATUs, within 20 days, shall ensure the development of the draft of local budget, taking into account the methodological instructions received.

Art.20 of the Law instructs the executive bodies of the first/lowest-level ATUs to submit the draft budget for examination by the local council not later than November 15. Art.21 of the LLPF instructs the executive bodies of the second-level ATUs to submit the draft budget for examination by the respective authorities not later than on November 15. The first/lowest- and second/middle-level ATUs, according to Art.20 and 21 of the Law, shall approve the local budgets before December 10 and 15 respectively. Taking all of this into account, the sub-national government bodies receive information about the transfers to be allocated to them before the beginning of their budget deliberations. Visits to ATUs confirmed this.

Based on the provisions of Art.26 and 32 of the LSBSP, the Government submits for examination to the Parliament the draft State Budget Law before October 1. According to Art.31, the Parliament shall approve the Law on State Budget before December 5 of the current year. If necessary, according to Art.24 of the LLPF, the authorized body of the ATUs shall adjust its budget to the provisions of the State Budget Law within 30 days from its publication.

Discussions with Rayons confirm that they receive information as stated by the Law.

Score A

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

According to Art.29 of the LLPF, the reports covering the execution of budgets of ATUs are approved by their authorized bodies, and no later than February 15 of the year following the reporting year, are submitted to the MOF for their inclusion in the report on the execution of the national public budget. The evidence is that these reports are produced in a timely manner as required by the law.

Score A

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	Score A (i). The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. Score A (ii) SN governments are provided reliable information on the

	allocations to be transferred to them before the start of their detailed budgeting processes. Score A (iii) Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. Score A

PI-9. Oversight of aggregate fiscal risk from other public sector entities.

(i). Extent of central government monitoring of AGAs, SEs and JSC.

The Register of Public Assets kept by the Agency for Public Property under the Ministry of Economy and Trade shows there were 316 State Enterprises (SEs) and 328 Joint Stock Companies (JSCs) in the database as at October 1, 2007. The Ministry of Finance has the Division of Monitoring and Financial Analysis (DMFA) which monitors the financial performance of SEs and JSCs in which the government has a controlling stake. DMFA receives financial reports on these companies from the National Statistics Bureau (NSB), which collects quarterly data from business entities. Based on these data, DFMA prepares a comprehensive consolidated report containing a wide variety of financial information and analysis to Government every six months. In addition to these reports, DMFA prepares a breakdown of financial performance and fiscal risk for line ministries in respect of enterprises under their subordination. A consolidated overall fiscal risk statement containing key aggregated financial information is included in the draft budget documentation and, from 2007 this was included in the annual execution report.

It was clear from discussions with DFMA and a review of their reports that the Government has made a considerable effort to improve the quality of data collection and reporting since the Division was created in 2004. Discrepancies and omissions between the register and NSB from the database are identified and followed up through the appropriate line ministry. The result is a well organized and comprehensive reporting function within Government.

Nevertheless, there remains a residual concern regarding the underlying quality of financial data provided by SEs and JSCs; which is based on unaudited financial information provided to the NSB. As a result it is impossible to assess the reliability of the data provided to DFMA. This problem has been addressed by recent changes to the financial reporting regime which came into effect in 2008. From 1 January 2008 large SEs (determined by the criteria established in the 2007 Law of Auditing) will be classified as public interest entities which will be subject to independent external audit. In the absence of reliable audited financial reports which form the basis of the DFMA data, the default score under this indicator is C, but a score of C ↑ is assigned with the ↑ recognising the work done in improving the situation. If and when audited financial data of the major SEs and JSCs form the basis of DFMA's reports, the score for this sub-indicator could be A.

(ii) Extent of central government monitoring of SN (ATUs) governments' fiscal position.

Transfers to sub national government (ATUs - Rayons, Municipalities) are strictly controlled through the monthly allocation limit process and cannot be exceeded without Ministry of Finance approval. Rayons and municipalities raise their own revenues from taxes and the central government adds transfers from the State budget to these revenues.

The MOF monitors the execution of ATU budgets on a daily basis as the Territorial Treasury units submit budget execution reports on the ATUs (levels I and II) under their purview. Each month the ATU presents to the MOF information on payment arrears (aged over 30 days) which are outstanding at the end of the reporting month.

A consolidated ATU budget execution report is produced and approved by local councils on a monthly basis and has been placed on the web site of the MOF since 2004.

Both the current law and the new Draft Law on Local Government Finance permit all local governments to contract short- and long-term loans, from domestic or international financial institutions. It would also permit local authorities to issue guarantees to municipal and joint stock companies in which they hold a majority interest, as well as to persons, who according to legislation, have the right to preferred bank loans. The operation of the new Law may well pose a risk for the A Score here if the ability to borrow by 931 ATUs is not managed accordingly.

Score A

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	Score C+↑ (i) Most major AGAs/SEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. Score C↑ (ii) The net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports. Score A

PI-10. Public Access to key fiscal information

Public access to key fiscal information is assessed through the six criteria for the indicator as follows.

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	MTEF and the state budget are published on the web site. Compliant
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Published monthly on the web site The aggregate information is also presented in mass-media. Compliant
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Budget execution reports are presented to the Parliament by June 1, of the next year. There is not an official date for presentation to the public (publishing) of the budget execution report. However, Parliament has to take a decision which should be published. The audit of the 2005 Budget Execution Report was published by the COA on August 8 2006. The 2005 Budget Execution Report was approved by Parliament on June 22, 2006, and published by the Ministry of Finance on July 14, 2006. The audit of the 2006 Budget Execution Report was published by the COA on August 3, 2007. The 2006 Budget Execution Report was approved by Parliament on July 13, 2007, and published by the Ministry of Finance on August 10, 2007. Compliant
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	The Court of Account completes its Audit Report on the Execution of the State Budget within a month of its receipt from the Government and within four months from the submission of financial statements by first level budget spenders.

	The Audit of the consolidated budget execution report is published in the Official Monitor within 15 days from the date of presenting to the Parliament. The outcomes of all audits are published on the COA website. Compliant
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Published quarterly in the Procurement Bulletin and on the web page Compliant
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Information on resources to all primary service units is available both at State Treasury and on the local level (territorial treasuries) and can be produced upon request. It is also possible to obtain information on primary health units from CIFMA. Compliant

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score A. The government makes available to the public 5-6 of the 6 listed types of information

3.3. Policy-based budgeting

PI-11. Orderliness and participation in the annual budget process

(i) Existence of and adherence to a fixed budget calendar.

There is a well-defined budget calendar (in the Organic Budget Law) for the preparation of the MTEF and Budget as a combined process which is issued as a numbered Government Decision from the Prime Minister. For the 2008 2010 MTEF and 2008 Budget, the main elements and dates are:

Element	Dates
Medium Term Expenditure Framework (for 3 years)	
Macro-financial framework	By February 25
Cross-cutting expenditure issues	By February 5
Sector analysis and strategic expenditure plans	By March 31
Expenditure Plans and Resource Ceilings with completion of the MTEF document and submission to Government for examination and approval	By March 20
The Draft Budget for the following year	
Formulation of methodologies on elaboration and presentation of budget proposals	By April 20
Submission of development forecasts of sectors and territories in medium term perspective according to the forms proposed by Ministry of Economy and Trade	By May 1
Elaborating and presenting budget proposals	By June 1
Submission of the updated forecast of the main macro economic indicators for the following year	By June 1
Examining the budget proposals and elaborating the preliminary estimations of the draft budget	By July 1
Coordinating the estimations of the draft budget for the respective year with the central and local governments as well as the draft law of the state budget for the respective year	By July 20
Completing the draft budget law for the respective year and presenting it to Government	By August 25

A similar timetable between February 15 and June 20 applied to the drafting of the ATUs MTEF.

From 25 August to October the Government discusses the draft budget which is submitted to Parliament on 1 October and it is approved before December 5.

The methodology for budget proposals is the key guidance document in budget preparation. It gives details on the MTEF approval, with annexes on ceilings by functions and spending units, and the macroeconomic indicators annexed to the document. Guidelines are provided for budget proposals on revenues (asking for proposals for 2008 and estimations for the next two years, including description of each tax and the basis of estimation. It also provides guidelines for expenses - with descriptions on how certain expenses should be estimated (e.g. expenses on salaries should be increased because of GOM decision on salaries increase). An annex provides macroeconomic indicators for the next 3 years (GDP, price indexes, etc.) with other annexes outlining methodological norms on formulating of budget proposals for the coming year based on programmes and performance with explanations as to what the programmes are, and how to submit and ground the budget figures based on programmes, as well as the tables to be filled in.

There have been some slippages during the 2005 to 2007 period. The deadline for presenting the methodological norms for the draft budget is April 20, but in effect these were presented as follows:

For 2006 on 25 May
For 2007 on 23 May
For 2008 on 28 May

This delay has a consequential delay in the preparation and presentation of proposals for budget formulation which should be by June 1 but in effect these were presented as follows:

For 2006 on 4 July
For 2007 and 2008 on 5 July

These are significant and regular delays which affects the period available for LMs to submit their budget proposals, for which they have in principle 41 days. Therefore, in the Year 2008 these proposals were submitted 35 days late.

There were also delays in the final approval of the MTEF which should be on May 1. In effective the approval was delayed as follows:

For 2006-2008 MTEF 19 October, 2005
For 2007-2009 MTEF 11 July, 2006
For 2008 -2010 MTEF 2 July 2007

Discussions with the authorities indicate that these delays in the MTEF were due to translation into Russian from Romanian rather than having the material contained in the document available for input into the budget process. Indeed, in general given the consistency in the delays **within** the budget calendar and the adherence to the timetable for submission of the draft budget law to Parliament, it may be worthwhile revisiting the calendar to allow for these delays to be factored in. This would also be sensible should the proposal for merging the budget and the MTEF be accepted where the budget and the first year of the MTEF coincide.

For the 2009 - 2011 MTEF, the MOF has decided to publish the MTEF document later as a supporting document to the Budget so that it can incorporate the updated macro-fiscal framework and budget allocations. This will emphasise better the fact that the Budget and MTEF are a single process.

Full adherence to this timetable indicates a Score of A. While these delays within the budget calendar outlined above do not impede the presentation of the draft budget the Parliament, they do affect the period available for LMs to submit their budget proposals. A ‘B’ rating seems more appropriate and this is in line with the recommendation made to amend the budget calendar.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).

There is a MTEF Coordinating Committee which is chaired by the Minister of Finance. Members comprise officials from the different government ministries, representatives of local government bodies, the trade unions, the business community and civil society. For the 2008 - 2010 MTEF, an MTEF Concept Paper was prepared in January at the outset of budget preparation which identified the key policy issues and priorities to be addressed during in the forthcoming MTEF and Budget. The Concept Paper was discussed and approved by at senior minister level (First Deputy Prime Minister, Minister of Finance and Minister of Economy). For the 2009 - 10 MTEF the scope of the MTEF Concept Paper was broadened to include an update on policy priorities provided by the Ministry of Economy and Trade. Following the Government reshuffle in March 2008, responsibility for the NDS has been moved to the Government Secretariat, with a new Inter-Ministerial Committee on Strategic Planning chaired by the Prime Minister overseeing both the NDS and MTEF processes.

MTEF and associate budget preparation in the budget calendar is based on Working/Stakeholder Groups which are focused on a particular activity such as macro economic forecasts, sector policies and strategic expenditure plans (seven sectors in MTEF 2008 - 2010) and public expenditure framework for the MTEF period. Activities for formulating each element of MTEF and budget preparation are assigned to responsible authorities to carry them out as well as the beneficiary authority of each activity. Activities for budget preparation are listed in the calendar above. The MTEF is presented to Parliament for information - it a government document while the budget is debated in Parliament.

Score A. This is an improvement since the 2006 PEFA as the impact of delays in the calendar has been lessened and not fed though to this indicator given the development of the MTEF Concept Paper early on in the process.

(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).

According to law no 847 –XIII of 24 May 1996 on the budget system and budget process, the deadline for approval of the annual budget law is December 5. The last three State Budget Laws were approved as follows:

a) for 2005 - on November 11, 2004, Law No. 373-XV
b) for 2006 – on November 16, 2005, Law No. 291-XVI
c) for 2007 – on November 23, 2006, Law No 254-XIV

Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	Score A (i). A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time Score B (ii) A comprehensive and clear budget circular is issued to MDAs, which reflect ceilings approved by Cabinet (or equivalent) prior to the circular distribution to MDAs. Score A (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. Score A

PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

(i) Preparation of multi -year fiscal forecasts and functional allocations.

The MTEF document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, and the deficit and its financing. However, because the MTEF document has been prepared in April at time of setting of the ministry resource ceilings, it has differed from the subsequent budget figures which have incorporated a subsequent update of the macro-fiscal framework and the outcome of the budget negotiations. The 2008 budget introduced information comparing the revenue and expenditure estimates in the budget with the revenue and expenditure estimates made as part of the 2008 - 2010 MTEF and the reasons for any differences. However, the differences between the 2008 forward estimate of the MTEF 2007-2009 and the actual 2008 budget are not clearly explained, either directly or via the MTEF 2008 - 2010. The explanation of the differences between the 2008 allocations of the MTEF 2008 - 2010 and the draft budget for 2008 in the budget documentation is a useful step but does not confirm the value of multi-year forecasts of the MTEF.

Expenditures are broken down by economic categories and by sector (which may correspond to a ministry if a sector is covered by a single ministry such as health), but may also encompass several ministries (as in education sector).

Score C↑. This improvement from the 2006 PEFA, expressed as an upward arrow, reflects the linking of the budget and the MTEF in 2008, but would need to include linkages with successive MTEFs to further improve the score.

(ii) Scope and frequency of debt sustainability analysis

The MTEF document includes a detailed exposition of debt management broken down into external and internal components, but there is no real analysis or a debt strategy. The Debt Sustainability Analysis is performed annually as part of surveillance by the IMF and World Bank and forms part of budget preparation.

While what is carried out merits the Score A under the scoring guidelines, a debt strategy and more detailed analysis could be developed.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

The MTEF document presents an analysis of the existing situation, priority measures identified for reform and implications for resource allocation for the main expenditure sectors. The relative priorities are reflected through altering the expenditure allocations for the respective programmes (either in terms of their share of the total or share of GDP). This has been based on the strategic planning of expenses in pilot sectors, starting in 2002. Projections for 2003 - 2005 covered education and health care representing 40% of the total volume of public expenditures; projections for 2004 - 2006 and 2005 - 2007 were expanded to include social assistance and covered over 60% of the total volume of public expenditures. In the 2006 - 2008 MTEF, the sectoral presentations were expanded to include agriculture. In the 2008 - 2010 MTEF, the sectors covered included culture, tourism and defence.

Objectives and goals are set out in greater detail along with total expenditure allocations for each programme within these sectors equating to strategies linked to NDS priorities which covers now covers some 74% of expenditures in the seven sectors. These are analysed with respect to reform actions within the programme, the consequent budget management, financial implications and monitoring indicators. Costs are calculated for each programme from detailed costs projections produced from the “bottom-up”, analyzing each year separately as evidenced from visits to two line ministries. All sources of financing are included: state budget, ATUs budgets, special funds and means, credits and grants provided by external donors, as well as capital investments. Detailed calculations are presented within the draft on annual budget law but not in the MTEF which is considered to be a strategic document where such a level of detail is inappropriate.

The MTEF sector strategies are driven by the MTEF Team and the MOF's Sectoral Finance divisions with sector ministry input, and reflect the much stronger analytical capability in the MOF than in the sector ministries, who would not be able to produce such a sector strategy independently. This reflects a weakness in the sector ministries in planning and budget preparation which has been addressed by the creation of a Unit for Analyses, Monitoring, and Policy Evaluation within ministries, but these are still relatively undermanned and inexperienced. The capacity to formulate ministerial budgets linking policy to plans and plans to budget formulation is still underdeveloped and has to be the next step of the MTEF and NDP process. Nevertheless sector ministries contribute to the development and promotion of sector strategies though technical working groups involving senior staff and specialists from LMs.

Given the number of supplementary budgets (which impact on scoring under PI-1), there is a danger that the expenditure under the supplementary budgets could deviate from the sector strategies that form the basis of original budget. However, all supplementary budgets have to be passed in Parliament and are subject to Parliamentary scrutiny and debate. Comparison of the percentage distribution of total expenditure with the percentage distribution of total budgeted expenditure from PI-2 does not show up any significant changes apart from increase to investment sectors detailed in the next dimension, and a reduction in the share of health and social protection which would be expected given the fixed benefits within the year under CIFMA and SSIB.

Score B

iv) Linkages between investment budgets and forward expenditure estimates.

In principle, each investment priority is analysed as to its financial requirements and available funding over the construction phase. Projects are selected according to their strategic priority (e.g. the energy and fuel complex, and transport and water and sanitation) and (additional) projects are planned as (additional) funds become available. In practice in the past, this was applied to foreign funded projects by the interested donor as there was little or no funds for investment financed solely from domestic resources. There has been a significant change in policy with increasing level of revenues. There has been a movement away from funding for investment as almost a residual after recurrent expenditure requirements have been satisfied, which resulted in a highly fragmented and short-term approach to investment planning to an allocation for investment in the budget. Moreover, during the year when additional revenues have become available, investment (particularly in Transport, and Water and Sanitation) have been given priority. Comparison of actual expenditure against budget (from PI-2) shows supplementary allocations have been biased to sectors that include transport, water and energy and fuel complex. Data on outstanding balances for completion are used to select which project should receive funding, with an emphasis on completion of projects that are in an advanced stage of construction and are 80% completed as the first category. Sunk cost is used as the primary criteria. This new policy towards investment has necessitated the development of skills and a process for the identification and selection of investment projects so that new projects can also be considered. As a result pilots in investment procedures have been developed in Transport and Water, and Sanitation sectors. This has included the creation of forms to assist in the screening and selection of investment ideas and their recording. This work was carried out as part of the MTEF technical assistance (TA) with the help of consultants. These forms have addressed issues such as linkages to strategy and recurrent cost implication. However, the level of investment cycle skills is low particularly in the LMs while the central ministries are more concerned with registration and recording.

Given the pilot work on Transport and Water and Sanitation carried out as part of the MTEF and that these sectors are the main areas for investment presently, a Score B is given though this may well mask systemic weaknesses in LMs and the overall investment process.

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	Score B↑ (i). Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling basis Score C↑: (ii) DSA for external and domestic debt is undertaken annually. Score A (iii) Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure. Score B (iv). The majority of important investments are made on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. Score B

3.4. Predictability and control in budget execution

PI-13. Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

Tax revenue is collected through two separate departments – State Fiscal Service (SFS) and Customs Service – each with their own law *viz*, Tax Code (April 1997 as amended) and Customs Code. Each Law sets out in detail administrative procedures and the coverage of taxes under its jurisdiction. During the period 2005 to 2007 all laws developed by the State Fiscal Service were subject to the Law on Guillotine. In 2007 there were changes in the Law to reduce compliance costs and also administration costs. Changes to Customs Code were discussed in Parliament in April 2007 to update many chapters in the light of changes in circumstances (e.g. vehicles, transit, intellectual property, nomenclature, system of binding tariffs and procedures). Any changes to the Tax Codes have to be passed by Parliament. There is no ministerial or presidential discretion to waive taxes or deviate from the provisions of the Codes.

The Customs Code specifies a generic category of statutory exemptions (e.g. goods going to light industry enterprises with the exception of those that are subject to excise taxes), classified under the customs category “active improvement.” The list of such enterprises is determined according to regulations approved by the government. The other statutory exemptions in the Customs Code mirror international practice. Statutory exemptions under the Fiscal Code are based on standards found internationally. The sources for this assessment are tax legislation and tax authorities. Discussions with the private sector indicate that generally there is clarity but there is often disagreement relating to the interpretation of (i) deductible expenses for corporate income tax purposes; (ii) input VAT and (iii) VAT exemptions. These disagreements are the main reasons for appeals in the Courts.

Score A

(ii) Taxpayer access to information on tax liabilities and administrative procedures.

The Tax Code establishes the general principles of taxation, the legal status of taxpayers, tax administration and elements regulated by the tax legislation, the principles of assessment, accounting records of income and deductible expenses, as well as procedures of applying penalties for infringement of tax legislation. The Code covers general state taxes and fees and local taxes and fees.

The Customs Code establishes the functions of the customs authorities in the area of assessment of import/export rights (taxes and fees) established by legislation. The Code also regulates the customs activities, customs policy and general principles of economic safety of the State.

All the tax legislation and its changes are published in Official Monitor before entering in force. The latest practice is to publish all the tax legislation changes far in advance (e.g. 4-6 months before they will become effective, and usually the effective date is new fiscal year).

All official monitors of Government are easily accessible, moreover, there is a Ministry of Justice legislation web-site (www.justice.md) containing all the legislation up-to-date, so that the users of information can get easy access to information. Tax Laws under the SFS are also published on its website (www.fisc.md) in Romanian, Russian and English languages. There is extensive information on tax issues in Romanian and Russian and less so in the English language.

The Tax Authorities carry out regular tax awareness campaigns throughout the country via the media (print, TV and radio and own website) and conduct workshops and visits to enterprises, as well as issue official explanatory letters on application of certain provision of the law (usually for the issues raised in many official requests received from taxpayers. In 2005, in the context of the income declaration campaign, three advertising presentations were placed on all TV channels. SFS organised 1,256 and 1,180 information seminars in 2006 and 2007 respectively. In 2007, the Taxpayer Assistance Information Centre was initiated by the SFS and will become operational at the beginning of 2009. Customs Services publishes a newsletter (Customs Courier) which provides information on changes to legislation. A periodic magazine "VAMA" is also published by the Customs Service starting in December 2007. The Customs General Director has open meetings once a month and the managers of customs bureaus meet the business community monthly.

A score A has been assessed based on the information supplied by the Authorities and discussion with the private sector support the level of access.

(iii) Existence and functioning of a tax appeals mechanism.

Articles 267 to 274 of the Fiscal Code set out the procedures for appeals with time frames as well as the provisions of the Law on Administrative Offences no 793-XIV of 10 February 2000. Decisions, actions, and failure to act may be appealed through the Customs Supervision Department or Court in accordance under Article 18 of the Customs Code. Section XI sets out in detail procedures, with time frames.

Appeals under both jurisdictions can be dealt with administratively in the first instance though internal process and if not satisfied by recourse to the Court governed by the Civil Code of Practice. There is consideration of setting up an independent appeals tribunal in order to avoid having recourse to the civil court and a draft law is still being determined. Although the effectiveness of appeal mechanisms has improved over the last few years, there is scope for improvement by making the internal processes of Tax and Customs authorities more user-friendly in cases of disagreements. A recent study under the USAID/Moldova Business Regulatory & Tax Administration Reform (BIZTAR) Project recommends reform of the appeals process for the State Fiscal Service.[11] There is a private sector view that there is an implicit assumption that the authorities would win in the event of an appeal. The data show that this is not always the case although the proportion of verdicts for taxpayers is relatively small.[12] The Fiscal Code provides that in the case of inconsistency, the interpretation of tax legislation should be in the favour of the taxpayer; however, the private sector alleges that this rule is not working in most cases. Justice reform, particularly related to court independence, will also improve any negative impact of the effectiveness of appeals.

Score B

[11] Collecting and Paying taxes in Moldova A Tax Benchmarking Exercise

[12] In 2006 of 2,326 appeal cases, 95% were decided in favour of the State. In 2007, 457 cases were decided by the Court against decisions of the STI and 395 were found in favour of the STI. Customs states that there are 20 to 30 appeals annually out of 200,000 declarations (including export and transit declarations).

	Minimum requirements (Scoring Method M2).
PI-13. Transparency of Taxpayer Obligations and Liabilities	Score A (i). Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. Score A (ii). Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the Revenue Authority supplements this with active taxpayer education campaigns. Score A (iii). A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed. Score B

PI-14. Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system.[13]

Identification of taxpayers in the State Register is established according to the ID Codes assigned by the Fiscal Authorities and the Ministry of Informational and Technology Development. All new enterprises must register (and existing ones re-register) with the Ministry of Informational and Technology Development and are issued with IDNO which is used as a unique code for the enterprise and fiscal code at the same time. Physical persons also get and ID from the State Register, which is used as fiscal code for taxation purposes. These are all shared by the Ministry with the Fiscal Inspectorate and the register is up dated weekly. This means that every person receiving income or making taxable payments is required to be issued with a certificate assigning a tax identification number (TIN). Unregistered persons (unregistered sole traders or unemployed individuals) have a unique ID code which is used as fiscal code. Any person required to submit a declaration, a report or other document must indicate these details on every such document in order to be identified. The Fiscal Authorities must indicate the taxpayer's details in all notices and demands sent to the taxpayer. In business and other transactions, the details must be included on documents. The taxpayer registration data is linked with the treasury, so that all the revenues collected are assigned to specific taxpayer using TIN/IDNO. Moreover, all the payment made by treasury are verified so all the data (including bank accounts) are consistent with Tax Service's database. The Fiscal Inspectorate places all the data on its web site so that it can be used for verification of fiscal information (i.e. information about existence of enterprise, its address based on TIN/IDNO entered, VAT invoices numbers, etc.).

The banking and treasury system also must use the TIN and IDNO system for opening bank accounts.

Score A

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

The liability for violations of income tax legislation is set out in various articles of the Fiscal Code covering: calculation of penalties and interest; assessable penalties; waiver of penalties; penalty for failure to file income tax declaration; penalty for failure to pay income tax; failure to file correct information; penalty for failure to pay estimated tax on due date; penalty for negligence in preparing returns or other required documents; penalty for wilfully providing false or misleading tax information; penalty for failure to provide a TIN; and criminal tax

[13] The tax registration process could be streamlined by removing the need to attend the revenue offices after the company registration process (which issues a TIN), but this is outside the scope of the indicator which focuses on ensuring that tax payers are registered with the tax authorities

violations. There are different tariffs for different violations: if no tax declaration (article 260 of the Fiscal Code) a fine of 5% of the amount of tax payable for each month of delay but not to exceed 25% of assessment; and for non payment of taxes (Article 261, al.(1)) a penalty of 2% of the overdue tax amount, but not more then 24% of the tax amount. Under Law no 111-XVI of April 2007, a stricter sanctioning system has been approved merging a number of fines and increasing their amounts. Previously arrears were charged on a daily basis which reflected interest rates in the country.

If a tax payer agrees with fines assessed, there is a reduction of 50% (article 234) provided that:

a) the tax payer has no arrears as of the date of decision on the offence and repays at the same time;
b) the taxpayer repays the amount of taxes, fees, penalties and or 50% of the fines indicated within 3 working days from the date of receiving the decision;
c) the taxpayer presents, within the time limit, documentary proof of voluntary repayments in a) and b).

The fiscal authorities maintain a database having accrued taxes (from fiscal reporting submitted by taxpayers) and actual payments, in case of delays – the system automatically calculates penalties for late payments. The penalties for late payments and for non-compliance with tax legislation are sufficiently high, so that taxpayers are stimulated enough to comply with legislation.

Figures on fiscal sanctions and late payment penalties assessed as a result of inspects in 2005 to 2007 are:

	2005		2006		2007	
	Lei 000	% of additionally assessed amounts	Lei 000	% of additionally assessed amounts	Lei 000	% of additionally assessed amounts
Total Sanctions	135,047.5	42.0	139,148.4	39.8	60,025.3	25.3
Total tax penalties	36,398.3	11.3	51,080.3	14.6	19,249.3	8.1

The reason for the drop off in 2007 is due to the suspension of inspections due to the May 11 Law no 111 –XVI covering a tax amnesty (see below on audit and arrears).

Section X of the Customs Code covers infringement of customs regulations and liability for infringement; proceedings for infringement and their review. Depending on the seriousness of the violation, fines of up to 100% may be levied with clear ranges of tariff set out for each offence. Such penalties are sufficiently high to stimulate compliance within the administration of the ASYCUDA structure. Should the customs regulations be violated, an additional punishment may apply in the form of license revocation or suspension. Currently penalties are being reviewed by Parliament and to be placed under General Administration violations.

The tax and customs authorities have enough power to apply penalties and fines, including the right to block bank accounts or withdraw due amounts from taxpayers' accounts.

Score A

(iii) Planning and monitoring of tax audit and fraud investigation programs.

To ascertain the correctness of any tax declaration, its proper filing, determining and collecting tax liability, collecting estimated tax, related interest or penalty, the State Tax Service officers are authorized to audit (inspect) any books and records, such as account books, contracts, records, or other information related to the assessment of payment of tax. In examining books and records Tax Officers are authorized to enter during business hours any premises where any such books or records are maintained except for the premises used solely for dwelling.

Each territorial tax office has an audit manager who coordinates the activities of the division. Sixty-five percent of audits cases are selected by the headquarter SFS and 35 per cent by the Territorial Tax Offices which are submitted to the headquarter SFS for approval. Cases are selected using risk assessment software that identifies companies for audit. The audits usually are done using old traditional practice of inspections or so called “controls”. Although there is a formal plan related to scope of audits (full inspection for a certain period or targeted inspections related to certain taxes), there is no “audit plan” as it is understood under modern audit concepts. Reporting usually is done in form of statement, specifying all the irregularities found and consequences (i.e. penalties, fines or administrative procedures). Risk assessment is used by State Tax Service to identify companies for audits, but there is no risk assessment methodology for audits to be applied during specific audits of companies. Risk assessment is effectively based on inspection of returns for inconsistency between elements in the return, and any errors found in the return. These are done through a computerised based system. In 2005, 16.6% of total inspections were based on documentary inspections (7,844 inspections) and 46.8% were on topic inspections (18,999). In 2006, the inspection figures were 11.2% and 27.2% respectively and in 2007, out of 49,552 inspections 8.5% were documentary inspections and 30.6% topic inspections. In 2007, inspections were temporally suspended as a result of the tax amnesty) but have now resumed.

A new subdivision in SFS Headquarters has been created to perform more in debt analysis of occurrences of fiscal fraud in cases referred to it from audit. This unit combines the tax investigation activities of the CCCU.

The USAID report cited above makes many recommendations to improved SFS audit practice. IMF reports on tax administration also recommend the implementation of an audit modernisation strategy. These reports stress the need for a new computer system and the reorganisation of the SFS to service its mandate more efficiently and effectively. Support in this area is also to be provided through the Millennium Challenge Fund. An interesting observation with respect to audit is that although there is now a zero corporate income tax rate, the SFS still reinforces corporate income tax returns and impose fines in the event when there are mistakes in it, although the tax is zero.

Article 251 of the Customs Tariff Law covers Audit, Inspection, and Inventory. It allows for audit by customs authority when other means of establishing facts and circumstances have been exhausted. Results are to be reported to the audited person within five days of completion.

The ASYCUDA World system became operational in October 2005. Over 22,000 customs declarations were legalized that month, compared to a monthly average of 10,000 declarations before the system’s implementation. New regulations for customs brokers took effect in January 2006, with the first customs brokers accredited shortly afterwards. ASYCUDA WORLD[14] is a revamped model of ASCUDA ++ with improved functionality. ASYCUDA is an automated documentation system that is filled in on-line and assesses taxes due based on the information (Harmonised System Code, description) on the imported good. All Customs stations are on line. A risk assessment department was established in November 2005. The risk assessment module under ASYCUDA has been established and is fully operation under the three channel system with post clearance audits, reflecting best practice.

Due to the two systems in place a C↑ Score is allocated which reflects the relative under developed audit in the SFS and the ↑ to reflect the improvements in Customs with the

[14] Moldova was the first country to install and implement this version.

implementation of the ASYCUDA World risk assessment module. Action on audit under the reorganisation of the SFS will raise the score in the future.

	Minimum requirements (Scoring Method M2).
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	Score B+↑ (i). Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations. Score A (ii). Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. Score A (iii). There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. Score C↑

PI-15. Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

Arrears on direct taxes are not maintained in such a way to satisfy this dimension easily. The ratio of historical debt collection cannot be routinely calculated because the tracking system is based on accumulated liabilities rather than by the time occurred and hence time profile, as determined by article 179 of title V of the Fiscal Code. Indeed, because the vast majority of the arrears have been deemed to be un-collectable (from bankrupt companies and companies not longer trading for example), the Government made the decision to allow SFS to write off unpaid taxes at the time of the publication of the May 11 Law no 111 –XVI. While SFS was able to write off debts of taxes that it collected on behalf of the Central Government, SSIB and CIFMA, the decision to implement the law at the ATU level was left to the individual ATUs.

SFS Tax Arrears (million lei)

Budgets	2005		2006		January - July 2007			August - December 2007			2007
	Arrears Stock Jan 1	Tax Collected	Arrears Stock Jan 1	Tax Collected	Arrears Stock Jan 1	Tax Collected	Amnesty	Arrears Stock Aug 1	Tax Collected	Arrears Stock Dec 31	Tax Collected
State	996.0	2,571.8	1,012.3	3,402.1	966.4	2,357.9	1,270.9	116.3	1,987.9	206.7	4,345.8
ATUs	301.9	2,131.4	290.3	2,369.1	272.6	1,581.2	150.2	303.9	1,187.9	139.8	2.769.1
SSIB	827.8	2,942.7	958.5	3,645.3	949.7	2,308.0	735.4	138.0	2,027.1	457.9	4,335.1
CIFMA	0.0	408.4	4.5	506.1	3.9	401.9	2.7	11.6	358.3	2.0	760.2
TOTAL	2,125.7	8,054.3	2,265.6	9,922.6	2,192.6	6,649.0	2,159.2	569.8	5,561.2	806.4	12,210.2
Cancelled fiscal obligations					308.6						

Source: SFS

The table shows the impact of the write-off but also that arrears are still an issue as the stock of arrears at the end of 2007 amounted to 6.6% of tax collected by SFS despite the write-off and overall arrears are 4.4% of total taxes when Customs arrears are included. Written-off arrears were not subject to any time profile. However, (new) arrears at the end of 2007 can be considered to be calculated from May as otherwise they would have been written-off. This suggests that the problem of arrears requires reviewing and new ways to solve it which needs to include time-profiling.

It is evident from reports on tax administration (September 2007 IMF and March 2008 USAID) that SFS needs to address its administration to be better able to combat the issue of tax arrears particularly given the psychology of tax amnesties on expectations. This will require action on reorganisation of the administration and work practices as well as improved systems and computerisation, which will also improve the audit function. The GOM/IMF programme assumes reforms in tax administration. Work on this has started.

The payment of import dues before customs clearance minimises the possibility of accumulation of arrears to the State Budget at "customs fees" chapter. However, there are historical arrears, formed as a result of post-clearance audits, for which penalties are continuously accrued. Approximately eighty percent of arrears are historical arrears and penalties accrued. In 2005, 2006 and 2007, these arrears amounted to Lei 144 million, Lei 142 million and Lei 160 million respectively, representing 2.5 per cent, 2.2 per cent and 1.6 per cent of taxes collected by Customs. However by end 2007, 63 percent of these arrears are in excess of six years old and should be written-off in conformity with Customs Regulations. A purge of uncollectible arrears to Customs may be warranted to ensure that the arrears situation becomes manageable.

The action on arrears that has been taken and the reorganisation of SFS should ensure that the Score D should be much higher in the future.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.

Taxpayers discharge their fiscal obligations directly to the bank accounts of the State Budget or, depending on the case, to accounts of ATUs administered directly by the MOF.

Starting 1 January 2006, import/export dues are paid to a central open account of the State Treasury at the National Bank of Moldova, in total amounts (all levies together). As soon as the payment is made, the information is available on line to all Customs Bureaus and allows customs clearance operations to be performed.

Score A

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

Reconciliation between the tax authorities and ST on revenues is performed daily, monthly and annually at central and territorial level (e.g. ST and Central Tax Office, Territorial Treasury and Tax Office) - the reconciliation is related to taxes collected.

Score A

	Minimum requirements (Scoring methodology: M1)
PI-15. Effectiveness in collection of tax payments	D+ (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). D (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. Score A (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. Score A

PI-16. Predictability in the availability of funds for commitment of expenditures

(i). Extent to which cash flows are forecast and monitored.

The overall budget strategy is based upon the level of estimated revenues determining affordable expenditure levels. The MOF assesses the monthly revenue flow for the year ahead and determines monthly expenditure limits for LM and ATUs (and transfers to CIFMA and SSIB). LMs will notify their institutions of the annual budget approved, and requests monthly expenditure allocations based on their financial plans. The LMs make decisions for their institutions and forward the data to the MOF which will be accepted so long as the overall LM Cash Limit for each month has not been exceeded. The subsequent monthly limits are then entered into the ST system by institution and by detailed economic classification. They are rigidly applied and cannot be exceeded. If institutions require any changes to the set limits they have to seek approval by the LM and the MOF, and this is a very bureaucratic process.

Since November 2006 the Government has set up a liquidity committee which meets weekly and includes representatives of MOF, NBM as well as SSIB and CIFMA. Having established the Committee a recent IMF mission noted that MOF needs to build up its administrative and analytical capacity to facilitate the financing of budget expenditures month by month and develop annual, quarterly and operational monthly cash flow plans which will better inform the work of the liquidity committee.

A score of C has been allocated for this sub-dimension; the same as 2006. The creation of the liquidity committee is a positive development. Once the projections of SSIB and CIFMA are incorporated into cash flow projections and administrative and analytical capacity has been more fully developed in MOF the score should increase to a B or even an A.

(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment

The process described above gives budget managers of LMs an expenditure plan at the beginning of the fiscal year – one in which the spending units are provided with all the detailed analysis. It is, therefore, reliable and for the well-organized budget manager it should be an efficient process. However when cash shortages arise, this is not communicated to the LMs. This poses problems in meeting expenditure plans for LMs and, in the past has resulted in unforeseen reduced expenditures and/or arrears.

The present system requires contract commitments details to be entered into the system by local treasuries, which acts as part of the authorisation process for budget institutions. However, the system currently does not enable financial commitment data to be entered in the month when the expenditure is expected to be incurred. This is a serious drawback of the present system, and one which should be remedied through the FMIS presently under development. Score C

(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.

As noted elsewhere in the Report aggregate outturn significantly exceeded the budget in fiscal years 2005 to 2007. Reallocation between MDAs is treated in supplementary budgets and requires approval by Parliament and is therefore assessed under PI-27, not under this indicator. However, the Budget Law does provide arrangements to allow the MOF to withhold payments in the event of a serious revenue shortfall. Priority for payment is established centrally – with staff payments and debt repayment taking precedence. There are clear guidelines for the priority areas[15].

Score A.

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	Score C+ (i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. Score C. (ii) MDAs are provided reliable information for one or two months in advance. Score C (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. Score A

[15] Article 19(a) of the 2007 Budget Law.

PI-17. Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting [16]

The Public Debt Division (PDD) uses DMFAS version 5.3 for monitoring, settling, and accounting for external debt (70 loans). The PDD has complete debt records within a one-month lag for central government external and guaranteed debt, as well as for all debt-related transactions, including debt restructuring. It also has a complete on-lending registry. Domestic debt is recorded by the NBM in a debt recording system developed in-house; a mirror arrangement is also available with the PDD (DMFAS version 5.3 has a newly installed domestic debt module). The NBM has complete debt records within one-month lag and the records are updated in an accurate, timely and consistent manner.

The NBM's electronic registry has up-to-date and secure records of all holders of government securities. Moreover, all the transactions are backed up on a daily basis.

Moldova subscribes to the Special Data Dissemination Standard. The Government fulfils its statutory and contractual reporting requirements on central government domestic and external debt. Moreover, the debt data are published with one month of the reporting date.

Reporting of total non-financial public sector debt and loan guarantees fully meets all statutory and contractual reporting requirements, with data that are within six months of the reporting period.

Debt statistical bulletins covering central government debt are published quarterly on the NBM website. The bulletin provides information on central government debt stocks by creditor, residency classification, instrument, interest-rate basis. There is also information on debt flows as well as debt ratios/indicators.

The score for this sub-indictor is A (2006 Assessment C). This improvement reflects the development of more robust debt management software and improved procedures for preparation and reconciliation of data over the past 2 years.

(ii) Extent of consolidation of the government's cash balances

This is a dimension in which there has been significant improvement since the 2006 Assessment. From January 1 2008 all collected revenues and payments are administered through the single treasury account (STA). The CIFMA and SSIB bank accounts were transferred to the STA in the Central Bank at the end of 2007. The Treasury provided the two institutions with an interface (Treasury client software) for submission of payment orders to the TSA. The payment orders are authorized by digital signatures, and there is no exchange of paper documents.

The balances of regional treasury offices (TTs), including the special means accounts, were also transferred to the TSA at the end of 2007. The TT bank accounts have been converted to transit accounts. Each TT has up to 3 accounts (2 accounts for the State Budget: one for the main component and one for special means and special funds component and one for the local budget). These accounts are zero-balanced at the end of each day.

There remain some commercial bank accounts with balances outside the TSA. Some institutions have accounts for funds related to foreign financed projects and foreign exchange operations. The judiciary and customs authorities have suspense accounts for guarantees and other temporary balances, which remain outside the TSA.

[16] The PEFA Assessment Team coordinated with a Team from the World Bank preparing a Government Debt Management Performance Assessment (DeMPA) for Moldova. This is a more detailed assessment of debt management performance. The results under PI-17 are consistent with the findings of this report.

The bank balances of regional treasury offices, CIFMA and SSIB bank accounts were transferred to the treasury single account (STA) at the end of 2007. Some SSIB payments (e.g. social transfers for the partial payment of utility bills and emergency payments such as bereavement allowances) are held on commercial bank account that do not yet operate a zero balance mechanism. In addition the majority of pension payments are made in cash through the post office. Unspent funds are returned to the ST at the end of the month. The balance on the STA, held in the NBM is monitored constantly and a consolidated report including the majority of balances held outside the STA is prepared monthly. Some donor financed project bank accounts are excluded from the consolidated report.

Given the progress made in the consolidation of government bank accounts a score of B (2006 – C) is appropriate for this dimension.

Score B

(iii) Systems for contracting loans and issuance of guarantees.

Since the preparation of the 2006 PEFA Assessment the Parliament has approved the Law on Public Debt, State Guarantees and On-Lending[17] together with supplementary regulations on its implementation[18]. This Law provides for the Ministry of Finance to have the sole authority to contract for loans in local or foreign currency, and to grant state guarantees. Limits on state debt (including internal and external state debt and state guarantees) are established by the Annual Budget Law and are closely monitored through the IMF PRGF.

Moldova does not have a formal debt management strategy although broad medium term objectives are articulated within the MTEF document. These objectives are broadly descriptive statistics for the forecast period. The document has a baseline scenario for external and domestic debt consistent with the three-year rolling budget, a detailed description of the sources of financing and expected amounts as well as a breakdown of debt servicing costs. Although there are references to risks such as interest rate there is no mention of currency risks.

This area appears to be well managed although in order to score an A the GOM would have to develop a comprehensive debt management strategy which includes more explicit reference to risks and overall fiscal targets. A score of B (2006 – B) has been allocated to this dimension.

	Minimum requirements (Scoring Method M2).
PI-17. Recording and management of cash balances, debt and guarantees.	Score B+ (i). Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually. Score A (ii). Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances Score B (iii). Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government agency. Score B

17 Approved December 22, 2006.
18 Decision No. 1136 dated October 18 2007.

PI-18. Effectiveness of payroll controls

(i) Degree of integration and reconciliation between personnel and payroll data.

Each institution has responsibility for its personnel except that the Rayon budget and finance office's manages the payroll records of primary schools, which are financed by transfers through the local budget. The PEFA update reviewed the personnel and payroll systems at the Ministry of Health and the Ministry of Social Protection, Family and Children. In addition the PEFA Team reviewed the payroll system for teachers at Nisporeni rayon[19]. There are certain differences between the arrangements in LMs and for teachers which mean that they are addressed separately in the text below though indicator scoring remains at the Central Government level.

Line Ministries - Comprehensive personnel files are maintained by line ministries or budget institutions. Files should contain all relevant data, including the initial appointment form, training record, qualifications, grade changes and a photograph of the employee. Full documentation of all changes is maintained in personnel files. Changes to the personnel files (e.g. grade, vacation, leaves and appointments) have to be authorised by a designated manager and are entered on the personnel file and also passed onto the Finance Department who update the payroll records. Therefore, there appears to be a strong control system to ensure that changes to personnel status are reflected in the payroll system. Major LMs use computerised payroll software; small institutions may use either computerised or manual records.

With respect to Line Ministries the assessment found that, while personnel and payroll data are not directly linked, changes to the payroll are backed up with full documentation for all changes to personnel records and these appear to be subject to appropriate levels of managerial control.

The Score with respect to major Line Ministries for this sub-dimension is B.

Primary School Teachers – Personnel file are maintained by Head Teachers, with changes authorised by the Ministry of Education. Payroll calculations are carried out by the Rayon budget and finance department. Holding the personnel records and payroll data in separate locations complicates the reconciliation process and complex pay scales, which are conducted manually undoubtedly makes the system prone to clerical error. At the rayon level the Assessment Team found some evidence of one recent reconciliation conducted between the personnel and payroll data by the Mayor budget and finance office in Nisproeni although this is not done on a regular basis.

There are no documented procedures requiring regular reconciliations between personnel and payroll databases. In the absence of sufficient evidence as to these procedures, and in view of the issues raised above a score of D has been allocated to this sub-dimension with regard to teachers' payroll.

(ii) Timeliness of changes to personnel records and the payroll.

Line Ministries

Interviews took place with the Ministry of Health and the Ministry of Social Protection, Family and Child. In these ministries the system for updating personnel data and payroll data seems to work effectively and there is no evidence of retroactive changes. The maintenance of accurate wages records in LMs may have been compromised by the phased introduction and salary increases provided for in the 2006 Law which resulted in multiple salary increases out of Supplementary Budgets in 2007.

Nevertheless, in the absence of evidence of retroactive changes in payroll data a score of A is appropriate for the sub-dimension for Line Ministries.

[19] Payroll calculations for teachers are conducted by the budget and finance departments in the rayon.

Primary School Teachers –The timeliness of changes to teachers' personnel and payroll records will be more challenging given the decentralized system, the complexity of pay scales, a lack of computerisation and the fact the two sets of records are held in separate locations (i.e. personnel records are held by the head of the school and payroll records are held in the accounting unit at the mayor office).

Notwithstanding the above we found no evidence of retroactive changes to the personnel and payroll records and a score of A has been allocated to this sub-dimension for primary school teachers.

(iii) Internal controls of changes to personnel records and the payroll.

Line Ministries

Line ministries effectively need Cabinet approval to increase the staff establishment. The procedures set out for the maintenance of personnel files and the communication of changes to payroll are clear and, if followed, should establish an audit trail. The PEFA mission reviewed these procedures at the Ministry of Health which seemed to be operating effectively.

Score A.

Primary School Teachers - Staff establishments are determined by volume figures e.g. in schools a Pupil Teacher Ratio is in operation.

The assessment found evidence of internal checking at a rayon level but validation work is restricted by low levels of staffing and the physical location of personnel and payroll data. As a consequence the scope for adequate internal checking in rural and smaller budgetary institutions is limited.

Score C.

(iv). Existence of payroll audits to identify control weaknesses and/or ghost workers.

The FCRS checks all payrolls when an institution is visited (once every two years) and this is updated from the previous visit. This includes verification with the personnel records.

Score B

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	Score Line Ministries B+ (Primary School Teachers D+) (i). **(a) Line Ministries.** Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Score B **(b) Primary school teachers.** Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. Score D (ii). Required changes to the personnel records are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. Score A (iii). **(a) Line Ministries**. Authority to change records and payroll is restricted and results in an audit trail. Score A. **(b) Primary school teachers** Controls exist, but are not adequate to ensure full integrity of data. Score C (iv). A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise). Score B

PI-19. Competition, value of money and controls in procurement

(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold).

A new Public Procurement Law (no. 96-XVI of 13.04. 2007) was enacted that brings Public Procurement in line with international standards and practices and addresses many of the weaknesses identified in the previous 1997 law. The more positive aspects concern the decentralization of procurement function to the spending entities, a greater degree of separation in responsibilities within public procurement and increased transparency. The law is clearly oriented towards approximation of EU Directives and Regulations. However, despite the positive progress some donors still raise concerns regarding the institutional framework, and specifically the independence of Procurement Agency (AMRPPHA). In addition to its primary role of providing oversight for the procurement function in Moldova it has additional responsibility for the procurement of material reserves (fuel, wheat and medicines) under the AMRPPHA. Data provided by the Agency shows that this activity is extremely small (less than 1 percent of total public procurement in 2006 and 2007). The Government regards concerns over the institutional arrangements for the Procurement Agency to be unfounded due the nature of these transactions and the limited amounts involved.

Public procurement represents a substantial and increasing element of the expenditure side of the Government's budget. Estimates provided by the Agency for Material Reserves, Public Procurement and Humanitarian Aid (the Procurement Agency – AMRPPHA) indicated that total expenditure on procurement amounted to 6.4 billion lei in 2007 of which 40 percent of contracts by value and 71 percent by number of contracts were procured through open competitive bidding[20]. The data provided by the AMRPPHA indicates that in 2007 of the 15,972 contracts above the procurement threshold 15,294 (96%) were awarded on the basis of open competition.

Procurement Procedure – 2007[21]

Procurement Procedure	No. of contracts			Lei (million)		
	2005	2006	2007	2005	2006	2007
Open competitive bidding	5244 (23%)	8990 (30%)	15294 (40%)	1816 (57%)	3675 (30%)	4556 (71%)
Shopping	16205 (69%)	18504 (62%)	20220 (53%)	1050 (33%)	1205 (62%)	1305 (20%)
Sole Source	1871 (8%)	2270 (8%)	2731[22] (7%)	336 (10%)	380 (8%)	561 (8%)
o/w above the open tender threshold			*678*			*452*
Total Contracts above open tender threshold			15,972			5,008
Percentage above threshold awarded on basis of open competition			*95.8%*			*91.0%*
Total	23320	29764	38245	3202	5260	6422

Source: Agency for Material Reserves, Public Procurement and Humanitarian Aid

The Law requires procurement working groups and outcomes to be submitted to the AMRPPHA within 5 days after conclusion of the contract. The documentation provided to the AMRPPHA follows a standard format and all packages are subject to desk verification by AMRPPHA staff. The AMRPPHA recognizes that lack of staff means that it is difficult to

[20] According to Article 54 of the Procurement Law the maximum size of contracts for shopping is: for goods and services – 200,000 Lei and for works 1,000,000 Lei.

[21] This data excludes natural monopolies such as gas and electricity utilities and land line telephones.

[22] Of these contracts 678 (452m lei) fall are above open tender thresholds and 2053 (109m lei) below open tender thresholds.

conduct a thorough review of all contracts. While the procedures for the compilation of the statistics in the Agency appear to be sound, it is likely that compliance with the Law identified as a concern during the 2006 Assessment remains a significant issue. For this reason the procurement procedures followed by the procuring agencies may not be fully in accordance with the Law, which may in turn undermine the quality of the underlying data and create a false assurance as to the extent of open competition conducted in the country. We conclude that, while significant progress has been made in improving procurement practice compliance is still likely to be a problem and a score of B has been allocated under this sub-dimension.

Score B

(ii) Extent of justification for use of less competitive procurement methods

The justification for the use of less competitive procurement methods are in accordance with clear regulatory requirements[23]. However, previous diagnostics have noted that Single Source Procurement, where competition is completely absent, although having fallen significantly from earlier years prior to 2005, is still used too often (consistently between 8 and 10 percent of total contracts between 2005 and 2007). The AMRPPHA notes that for some activities (e.g. IT, security, rents and landscaping contracts) there are limited competitive markets in Moldova. The AMRPPHA also noted that they are taking a tougher and more structured approach on receiving requests for sole source procurement. According to its statistics, it rejected 162 requests in 2007 and 111 requests to May 2008. The information gathered from interviews pointed to a general lack of awareness of key changes to the Moldova's procurement regulations. In addition to monitoring requests for sole sourcing, the AMRPPHA has made considerable effort to provide training and to explain the new procurement procedures to procuring agencies. Nevertheless, a major problem is that these agencies are not consistently applying the law.

The Assessment notes the efforts made by the AMRPPHA to reduce the use of less competitive procurement methods between 2006 and 2008. Despite these efforts, it appears that further training and oversight will be required over a sustained period of time in order to see an improvement in the scoring of this dimension.

A score of C has been allocated to this dimension.

(iii) Existence and operation of procurement complaints mechanism

The legal provisions for complaints are, in general, clear and provide for oversight by the AMRPPHA. According to data provided by the AMRPPHA the number of complaints has increased significantly from 84 in 2005 to 241 in 2007. The increased levels of complaints are likely to be indicative of the improved transparency of procurement regulations rather than any significant structural changes in the procurement process in Moldova. As noted in 2006, the AMRPPHA is understaffed compared to equivalent agencies in other countries, and struggles to meet the service standards for reaching judgment on complaints set out in the Law[24]. The new Law also failed to resolve previous concerns about procurement arrangements in that the AMRPPHA acts both as an oversight agency and as the body charged with procuring material resources for Government.

[23] Article 53 of the Procurement Law.

[24] Article 72(6) of the Procurement Law states that the PA should issue a substantiated judgement on the complaint within 20 days of its receipt.

Given the present institutional arrangements a score of B has been allocated to this dimension.

	Minimum requirements (Scoring Method M2).
PI-19. Competition, value of money and controls in procurement.	Score B (i). Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate. Score B (ii). Justification for use of less competitive methods is weak or missing. Score C (iii). A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority. Score B

PI-20. Effectiveness of internal controls for non-salary expenditure

(i) Effectiveness of expenditure commitment controls.

GOM operates a rigid control system in respect of expenditures (described in PI-16, dimension (i)). If the need for in-year expenditure adjustment arises, the institution must seek LM and MOF approval to change monthly limits (which do not involve an increase in the overall budget). If an increase in the overall budget is requested, LMs send proposals to the MOF and the MOF collates these requests and submits a draft budget amendment to the GOM. These approval procedures are administratively cumbersome and time-consuming.

Commitment Data. The Treasury systems have the capacity to hold contract details, and institutions are required to supply all contract information to its territorial treasury so that the data can be entered. However, it is not possible to enter the detailed expenditure commitment which will arise in each month. In financial management terms this is a significant weakness. It also represents a weakness regarding this indicator in that, potentially, cash limits in a future month could be exceeded as the entry of the contract details will not reveal this position. However, the ST will not allow the Cash Limits to be exceeded, so the institution concerned will need to make adjustments in other expenditure areas to accommodate such problems. Additional assurance on the effectiveness of these controls can be taken by the low and falling level of expenditure arrears (see PI-4).

In view of the risk that exists a Score B has been allocated.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.

The internal controls/rules that are in place are well established and comprehensive and, in the main, seem to be well understood by staff in line ministries and budget institutions. The rigidity of the monthly cash/allocation limits and the difficult manual processes for seeking approval for changes are two key areas where the control is excessive.

Score B

(iii) Degree of compliance with rules for processing and recording transactions.

The FCRS visits each institution and municipality once every two years. Visits are focused in ensuring compliance with the Law, and the majority of internal controls/rules are set out in legislation. Where the FCRS staff identifies serious malpractice, they will inform the appropriate authorities. This will include notifying the LM, the Prosecution Service, the CCCU, etc. For all issues identified, the institution is formerly notified and subsequently has to provide a written reply to the FCRS. Such issues are to be followed up at the next visit.

The FCRS has the power to impose fines on individual civil servants for failure to comply with proper procedures. This vehicle should act as a deterrent against maladministration and malpractice. The types of problems identified by FCRS do not suggest that there is widespread malpractice or maladministration – many of the issues are of a minor nature. The score of C allocated in 2006 seems harsh given the degree of compliance with rules for processing and recording transactions. The score allocated for the sub-dimension under this Assessment is B.

.	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	Score B (i). Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure with minor areas of exception. Score B (ii). Other internal control rules and procedures incorporates a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. Score B (iii). Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification. Score B.

PI- 21. Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

The reform of the internal audit arrangements in Moldova is an area which is receiving a lot of attention from the Government, with the support of a component of the World Bank Public Financial Management Project. The overall goal of the reform agenda is to develop modern institutions and systems of internal control and internal audit. Changing the approach in this area is a challenging long-term exercise; however the commitment of the Government (with the support of international expertise) has been most encouraging.

Currently there are ten internal audit (IA) units in place in major public institutions. These IA units have been established independently with a consequent lack of overall harmonised methodological framework. This deficiency is being addressed through the establishment of a Central Harmonization Unit in the FCRS. A major goal of this unit is to develop the legislative and methodological framework of internal audit in Moldova.

The current work undertaken by these units contains elements of ex-post inspection and of internal audit. Most managers and public sector employees still consider internal audit activities to be more akin to financial inspection than a support and consulting function to improve the operations of their organisation. Units are not conducting their activities on the basis of modern risk assessment methodology and there is a basic need for training on internal audit techniques.

The FCRS continues to perform ex-post verifications of the execution of the budget. Three pilot internal audits in the MOF adopted a systems approach (i.e. conducting an evaluation of business processes, an analysis of internal controls and an evaluation of its effectiveness). Some other limited systems work is carried out by the FCRS and CCCU (see P1-20 above).

The Strategy for Development of Public Internal Financial Control (PIFC) was developed in accordance with the European Union Action Plan. The strategy is to develop a conceptual and strategic framework for implementing a modern Public Internal Financial Control (PIFC) System. Key elements of the strategy are:

- Raising managerial awareness of concepts of managerial accountability, financial control and the role of a modern internal audit function in Moldova. The Central Harmonization Unit (CHU) established in the FCRS is currently working on the development of the legislative framework for public internal financial control. Moving the CHU under the direct subordination of the Ministry of Finance would increase the visibility and influence of this important reform.
- Gradual harmonization with internationally agreed standards and methodology for the control and audit of public resources. Work in this area includes the development of IA standards (which have been published in the Official Gazette) and ongoing work on the development of an IA training programme.

- Moving from a top-down system of financial inspection to a modern PIFC system. This year the MOF plans this year to re-organise the FCRS into a Central Internal Audit Service (CIAS). The CIAS is likely to contain both a centralised Internal Audit function (providing Internal Audit capability for those ministries that do not have their own Internal Audit Unit), and a centralised ex-post inspection service. This involves re-training FCRS staff and limiting the inspection role to reacting to requests for a review of specific transactions or activities.

Given the significant efforts and attention given to internal audit since the 2006 Assessment, the Government has launched pilot audits which are focusing on systemic issues for the first time and providing significant resources to developing professional standards and training. The quality and coverage of internal audit is therefore improving and it is appropriate to add an upward arrow (↑) to the C rating under this dimension.

Score C↑

(ii). Frequency and distribution of reports

FCRS is required to visit all budget entities at least once every two years. The control activities cover the whole period since the previous control visit. As well as these routine visits, FCRS also undertakes control activities at the request of law enforcement agencies. At the end of the visit FCRS issues a letter outlining shortcomings and violations discovered together with a time limit for a response. These letters are submitted to the budget entity and their superior body (e.g. LM or municipal authority) is also informed. Violations of the Law reports are not provided to the Court of Accounts. Given the lack of interaction with the Court of Accounts, a score of C has been allocated for this dimension.

(iii). Extent of management response to internal audit findings

The focus of the activity of FCRS is on compliance with existing legislation and in many cases requires resolution by regulatory or judicial bodies. Action on the findings of FCRS is prompt and comprehensive. The FCRS monitors responses closely and during the mission provided statistical data on its work during 2007.

While this dimension requires the issuance of an A rating (prompt and comprehensive in the context of the existing system) given the scoring guidelines, the Assessment Team note that action by management on IA findings will become more complex as Moldova begins to develop a modern decentralized IA function. This will seek to address broader concerns such as improving the overall internal control environment and focusing on systemic weaknesses.

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	Score C+↑ (i). The function is operational for at least the most important central government entities and undertakes some systems review (at least 20 percent of staff time), but may not meet recognised professional standards. Score C ↑ (ii). Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI. Score C (iii). Action by management on internal audit findings is prompt and comprehensive across central government entities. Score A

3.5. Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

At the time of the 2006 Assessment the Report noted that separate accounts were held in the SSIB, CIFMA and territorial treasury branches. While there was no evidence that bank reconciliations were not carried out, the development of the STA has undoubtedly simplified and improved overall controls in this area since 2006. Since 1 January 2008, the State Treasury is serviced through the STA with the NBM, through which all central Government revenues and expenditures are recorded. All transactions of the ST can be accessed in real-time through on-line access to the account at the NBM. Reconciliations between Bank and ST records are performed on a daily basis by State Treasury staff.

In view of the improvement in bank reconciliation procedures a score of A is allocated. This is an improvement since 2006, when a score of B was allocated to this sub-dimension.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances.

There are no Suspense Accounts in operation at present under Treasury Operations.

There are well documented procedures for advance payments and there is no evidence to suggest that there are any problems. Advance payments are treated by Treasury as expenditures (using cash basis) according to the contractual provisions and monitored on a monthly basis. Travel allowances must be reported with 5 days of return date. Construction advances are limited to 30% with no term limit and all other advances are not subject to amount or percentage limit but have 30 day term.

Score A.

	Minimum requirements (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	Score A (i). Bank reconciliations for all central government bank accounts take place at least monthly at aggregate and detailed level, usually within 4 weeks of the end of period. Score A (ii). Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. Score A.

PI-23. Availability of information on resources received by service delivery units.

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

The only Public Expenditure Tracking Survey (PETS) was carried out by the World Bank in 2004 which focused on primary schools. The Department of Attraction and Coordination of Foreign Technical Assistance of MOET is responsible for maintaining data on assistance which can be described as in-kind and these are accounted for by each institution individually. Aid for foodstuffs are allocated using specified procedures for dealing with the acceptance of such aid and its distribution. These procedures include a Central Commission and Commissions at Rayon and Village levels.

Territorial Treasuries issue daily statements (covering both expenditures and revenues) to individual institutions – to enable them to update their accounting records. There is a Public Institutions Accounting Software Package available but there is no requirement for them to use it. Many institutions keep manual records. As a result, rayons noted that the quality of accounting records can vary enormously between budgetary institutions. As noted in PI-18 primary schools are reliant on the Local Mayor's office for accounting services and the visit to a Rayon confirmed communication of accounting data to the individual institutions. The allocation of schools' budget to individual schools is formula driven (based on pupil numbers), although the calculation will be different in each Rayon area. In theory, therefore, there should be no difficulty in a Head Teacher being able to verify that the school has received their correct allocation. Discussions at rayon level also indicate that institution budgets are made available to the relevant constituency.

The processes in Territorial Treasuries ensure that both the local and central accounting data are reconciled. The Mayor's office should also be able to produce financial statements for primary schools, and the ST has the capacity to produce statements for individual institutions.

CIFMA contracts for health care provision at the individual unit providing health care services at each level and can supply details of funding at service delivery levels on request.

There is the capability to access primary education and primary health expenditure through the accounting and reporting system.

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score B (i). Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually.

PI-24. Quality and timeliness of in-year budget reports.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

The ST's systems produce accurate reports comparing actual expenditures/revenues with approved budgets. Statements are distributed by the ST to individual institutions on a monthly basis broken down by budget classification. The systems are, by modern standards, inflexible. Territorial Treasuries supply their institutions with daily statements of transactions processed (expenditures and revenues) so that institutions can update their own accounting records. They also provide a monthly statement to each institution – which is then in a position to reconcile the figures with its own records. Arrangements are appropriate, and although implementation could not be verified, it is considered that reliance can be placed on the data held in the Treasury Systems.

These systems do not, however, have any capacity to hold financial commitments data, although they do hold details of all contracts entered into. Individual institutions do maintain details of the commitments they have entered into and report these to MOF no later than the 15th of the following month. ST produces a monthly national public budget execution report based on the State Budget Execution and the budget execution reports that it receives from SSF, CIFMA and the ATUs. Given that financial commitment data is not captured in the Treasury Systems, the appropriate score for this sub-dimension is C which has scope for significant improvement with the implementation of the FMIS.

(ii) Timeliness of the issue of reports

The ST produces monthly and quarterly reports, normally within 3 weeks of the end of the reporting period. Local institutions are responsible for maintaining their own financial records and many use accounting software packages to do so, although many still rely upon manual records. The data received from the Territorial Treasuries should ensure that those records are reconciled with the ST. Institutions can, therefore, produce their own reports.

Score A

(iii) Quality of information

The procedures in place provide confidence in the financial data. The reconciliation procedures are secure and should ensure that total expenditures are recorded accurately. However, there has been no scope to examine the data entry procedures that are in operation to ascertain if there are weaknesses that would impact upon the quality of the allocation of budget classification data entered.

Score A

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Score C+ (i). Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). Score C. (ii). Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. Score A (iii). There are no material concerns regarding data accuracy. Score A

PI-25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

An annual budget execution statement is produced which covers adequately the execution position. Separate budget execution statements are also produced for CIFMA and the SSIB and these are consolidated into one document covering the State, CIFMA, SSIB and ATUs. This document is the report on the execution of the national public budget. However, the execution statements are not the same as annual financial statements as no details and disclosures of financial assets/liabilities, nor information on fiscal risk or contingent liabilities are included. A separate volume includes financial information/analysis statements to accompany the budget execution report. There are statements which analyse and review the effectiveness of the public expenditure incurred in the LMs that are piloting programme based budgeting. There are 11 further volumes which cover main elements of a financial report, however, disclosure notes are difficult to link to financial statements, which results in reports which are not easy to read and analyse. In addition, the MOF produces the information for the GFS Yearbook Statistical Tables.

It is clear from the above that certain information on the financial position is available and could be included in the budget execution report. The GOM should consider inclusion of such information at the end of 2008 and this omission reduces the potential score to a C.

(ii). Timeliness of submission of the Financial Statements.

According to Article 44(1) of the Budget System and Budget Process Law the Ministry of Finance should present the State Budget Execution Report to the Government by May 1 and the Government sends the Report to Parliament by June 1 of the following year. The practice is to provide the Report to the COA on or before May 1 so that they may complete their audit in a timely manner[25].

Score A

(iii). Accounting Standards Used.

The budget execution statement produced by the GOM appears to be complied consistently and in accordance with MOF methodological guidelines. It should be noted that budget preparation and execution are recorded on a cash basis by the ST, whereas institutions record their expenditures on a modified accruals basis. However, the government does not specifically disclose its accounting policies, but makes reference to MOF guidelines for preparing accounts, and there is no direct link between disclosure notes with financial

[25] In fact the COA starts its interim audit work prior to May 1.

statements. Each LM produces explanatory notes to its Financial Statements. Consolidated financial statements are not prepared, only budget execution statements – though these are regarded as comprehensive and accurate. Score C

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	Score C+ (i). A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. Score C. (ii). The statement is submitted for external audit within 6 months of the end of the fiscal year. Score A (iii). Statements are presented in consistent format over time with some disclosure of accounting standards. Score C

3.6. External scrutiny and audit

PI-26. Scope, nature and follow-up of external audit

(i) Scope/nature of audit performed (incl. adherence to auditing standards)

The mandate of the Court of Account (COA) is wide-ranging encompassing the control/audit of public institutions, State Owned Entities and legal entities using money appropriated from the state budget.

According to data provided by the COA, 59.9 percent control/audit coverage of total expenditures of central government entities was achieved in 2006 and 100 percent of revenues.[26]

Controls/audits conducted by the Court of Account during 2006

	Total Lei m	Amount verified by control /audit	Percentage
INCOME			
1. State budget	11,117.3	11,117.3	100%
2. State budget for social insurance	4,347.7	4,347.7	100%
3. Budgets of territorial administration	4,796.0	4,796.0	100%
4. Funds for mandatory medical insurance	1,559.0	1,559.0	100%
Total:	**21,820.0**	**21,820.0**	**100%**
EXPENSES			
1. State budget	11,019.2	7,250.6	65.8%
2. State budget for social insurance	4,378.1	2,408.0	55.0%
3. Budgets of territorial administration	5,063.0	2,850.5	56.3%
4. Funds for mandatory medical insurance	1,485.4	653.6	44.0%
Total	**21,945.7**	**13,162.7**	**60.0%**

Source: Court of Accounts

Since 2005 the COA has made significant progress in the development of an approach which meets best international practices. Firstly, amendments to the Law of the Court of Accounts in 2005 introduced modern audit concepts such as the addition of performance auditing into legislation. Secondly, COA published a Strategic Development Plan (2006 - 2010) in April 2006 which is based on four main pillars of: (a) institutional strengthening, (b) profession building (c) staff development and (d) achieving a greater impact from COA audit activities.

In its efforts to shift to modern audit approaches the COA has, with the support of international experts (a) developed a series of national audit standards which have been developed on the basis of international standards, (b) conducted pilot performance audits over

[26] In scoring this dimension it should be noted that the COA is required to audit all entities once every two years and that audit will cover the entire two year period.

the State Tax Service and State Customs Service, (c) developed new methodologies to the evaluation of internal controls based on international practice which were applied at a number of entities to promote the importance of good internal controls in improving public sector financial management, and (d) conducting pilot attestation audits which included opinions on the propriety, accuracy and reliability of pilot entities financial statements.

Finally it should be noted that the COA, with the support of international expects has developed a new draft Law on Court of Accounts which will codify the development of the institution in accordance with best international practice. The Assessment recognises the considerable progress made in the development of the COA. A score of C has been given on the sub-indicator which relates to the limited annual control/audit coverage in 2006. Future improvements to the score in this sub-dimension are dependent both on increased audit coverage and conducting financial audits in accordance with internationally accepted audit standards, which focus on significant and systemic issues.

(ii) Timeliness of submission of audit reports to legislature

COA audit reports are finalised after consultation with officials of the audited/controlled entity. Audited entities may provide explanations and submissions prior to the COA's final resolution (decision). Decisions are made within ten days of the completion of the audit during a plenary session attended by Board members and officials of the audited entity. Decisions are provided to hierarchically superior bodies of the entity, and if relevant financial and law enforcement agencies are informed of the results of the control/audit activity. Decisions are published after the expiring of the legal appeal period in the Official Gazette and on the COA website.

Pursuant to the Law[27], the Chairman of the COA presents the COA the annual Report on the management of the public finances during the respective fiscal year to Parliament before July 15 at a special meeting of Parliament. In addition the COA provides reports to Parliamentary Committees based on their relevance to that Committee's work[28]. Additional control/audit activities can be required by individual parliamentary factions, without a decree from Parliament, however these are restricted to one control/audit per quarter[29]. These are completed and reported back to Parliament within 60 days of completion of the control.

The COA presents its Report on state budget execution within 30 days of receiving the report from Government and within 4 months from the submission of financial statements by central government entities.

Score A

(iii) Evidence of follow up on audit recommendations

Based on control/audit decisions managers' inform COA of actions taken as a result of the control/audit. The COA has a division which monitors the implementation of requirements and recommendations made as a result of their audits and have significantly improved the monitoring of the implementation of decisions. In 2007 of the 60 decisions issued by the COA 60 percent of the recommendations were implemented in full. Of approximately 400 detailed recommendations made in these decisions, 85 percent had been executed. In addition follow up of the recommendations of previous controls/audits is specifically covered in the COA audit programmes.

Score A.

[27] Art.3.
[28] Art.6 (2). In 2007 COA sent 26 (2006 - 22) decisions to Parliament, which account for about 50 per cent (2006 – 40 per cent) of total adopted decisions. There is little evidence that these reports are discussed in Parliament.
[29] Art. 11 (4).

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	Score C+ (i). Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. Score C (ii). Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. Score A (iii). There is clear evidence of effective and timely follow up Score A

PI-27. Legislative scrutiny of the annual budget law

(i). Scope of the legislature's scrutiny

State budget forecasts and underlying macroeconomic assumptions are clearly presented in the draft of the annual budget as presented to Parliament. The MTEF is also presented to Parliament in the budget year and is of commendable quality in terms of providing detailed and comprehensive analysis of government finances.

Score B

(ii). Extent to which the legislature's procedures are well-established and respected

Parliament has instituted various parliamentary committees, of which the Committee for Economic Policy, Budget and Finance has primary responsibility for budget submissions. The proceedings of budget readings are clearly set out in the budget law and the timetable and proceedings are respected.
Score B

(iii). Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle.

The Government submits the Draft Budget Law to Parliament by October 1. The State Budget is approved by Parliament by December 5 after three readings. The last three budget laws were passed in November (see PI-11(iii)).
Score A

(iv). Rules for in year amendments to the budget without ex-ante approval by the legislature.

The Budget System and Budget Process Law provides clear and transparent rules for in-year amendments to the budget by the executive. Amendments within the overall budget ceiling of a budget entity require the agreement of the line ministry and MOF. Reallocation between MDAs is treated in supplementary budgets and requires approval by Parliament. Expansion of the overall budget expenditure through Supplementary Budgets has to be agreed through Government and passed by Parliament.

Score B

Existing procedures are well defined and respected.

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	Score B+ (i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. Score B (ii) Simple procedures exist for the legislature's budget review and are respected. Score B (iii) The legislature has at least two months to review the budget proposals. Score A (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow reallocations. Score B

PI-28. Legislative scrutiny of external audit report

(i) Timeliness of examination of audit reports by the legislature

According to the Law, the Chairman of the COA presents annually a summary report on the management of the public finances to a special meeting of Parliament. The Law also requires the COA to present the results of ad-hoc audits requested by factions within Parliament within 60 days of the request being received. Other than that, the results of the Court's control activities do not tend to be discussed in Parliament or its committees. A default score of D has been applied to this dimension.

(ii) Extent of hearings on key findings undertaken by the legislature

Hearings within the legislature are generally limited to the special meeting held to discuss the Annual Report of the COA, which is submitted by July 15 and discussed during a special plenary session of the Parliament. No in-depth hearings with responsible officials or Ministry of Finance` staff are held regarding the other controls/audits by the legislature; reports are discussed through the Court (see PI-26). Score D

(iii) Issuance of recommended actions by the legislature and implementation by the executive

Since 2005, while approving the COA Annual Report the parliament issues a Parliamentary Decision requiring the GOM to take actions to ensure that the issues which arose in the COA Report are acted upon[30]. This is a very short document and is designed as an instruction to ensure that the Government takes actions based on the Annual Report. Acting on the Parliamentary Decision, the Government prepares an Action Plan (agreed by the GOM and COA) which is issued as a Government Decision[31]. There is a need for the Legislative Framework to further define the role and authority of Parliament in the review and approval of annual audit report of the COA.

In the present system, the relative lack of parliamentary involvement has the effect of reducing the openness of the accountability process. Given the lack of deliberation or analytical consideration of the COA Annual Report the appropriate score for this dimension is a D.

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	Score D (i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. Score D (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. Score D (iii) No recommendations are being issued by the legislature. Score D

[30] In 2007 this was Parliamentary Decision No 167 (13 July 2007)
[31] In 2007 this was Government Decision No 1179 (1 November 2007).

3.7. Donor practices

D-1. Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

Both of these dimensions are treated together. The agreement with the IMF, which had been a precondition for the main suppliers of budget support, created the conditions for budget support to be renewed and Moldova reached agreement with the World Bank (with co-financing from the UK and Netherlands) and with the EC on budget support for the following amounts:

Allocations planned as the direct budget support

Donor	**Programme**	**Total -** Direct Budget Support (mil)	**2007** (mil)	**2008** (mil)	**2009** (mil)	**2010** (mil)
European Commission	National Action Plan 2007	€ 20		€5+€7.5	€7.5	
	Macro-financial support	€45	€20	€10+€15		
	FSP 2006	€9.2[32]	€4+€3.8			
	National Action Plan 2008	€30			€10+€10	€10
	National Action Plan 2009	€30				
	National Action Plan 2010	€35				
World Bank	Poverty Reduction Support Credit (PRSC)	$30[33]	$10	$10	$10	
Dutch Government	Co-financing of the PRSC	€12	€3	$5.2	$6.5	
Government of the Great Britain and Northern Ireland	Co-financing of the PRSC	£3	£1.47	$1.9	$1.9	
	Write-off the multilateral debt of Moldova	$4	$0.21	$0.3	$0.5	$0.6
Total (mil. Lei)			**673.1**	**852.78**		

Release of the budget support funds are subject to agreed conditions being met particularly for second and subsequent tranche releases. This in itself makes predictability problematic because achieving conditionality triggers releases. In these circumstances "blame" cannot be apportioned as the reasons may be that conditionality may be unrealistic, external factors may inhibit achieving conditionality or government did not actually carry out the programme.

Information supplied by the MOF indicates that for 2005 funds were received in the amount that exceeded the amount two times the amount initially approved (disbursements as part of a previous FSP agreement). In 2006, funds received were 50.4 per cent of what was expected and in 2007, 116 percent of the approved amounts.

[32] The first installment in the amount of 1.2 mil. Euro was disbursed at the end of Year 2006
[33] The first installment in the amount of 10 mil. $ was disbursed on April 6th, 2007

The way the 2007 budget support was achieved is as follows:

In the Draft Budget for 2007 526.8 m. lei was included as external grants for budget support. The MOF was confident of EC Food Security Programme money (143.8 m. lei). The balance of 383 m. lei was not secured at that time of the budget. During 2007 the Government of Moldova received $46.1 million in grants as follows:

DFID – $3.2 million (0.2+3.0)
EU – $38.6 million (€27.1 mil. (4.0+3.1+20.0))
Netherlands – $4.26 million (€3 mil)

In addition there were grants from many countries for combating the effect of the drought amounting to $5.7 mil. (63.4 m. lei) which was included in the budget line covering external grants for budget support.

The total amount of external grants provided in the form of the budget support for year 2007 constituted $51.8 million. (46.1+ 5.7). When the MOF revised the Budget law for 2007, they included all grant money received (611.5 m. lei).

For dimension (i), the evidence suggests a shortfall of almost 50 per cent in 2005, a surplus of 16 per cent in 2006 and 2007.

Score C

For dimension (ii) the evidence does not suggest that a score C represented by "quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years" has been fulfilled.

Score D

	Minimum requirements (Scoring methodology: M1)
D-1. Predictability of Direct Budget Support	Score D+ (i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. Score C (ii) The requirements for score C (or higher) are not met. Score D

D-2. Financial information provided by donors for budgeting and reporting on project and programme aid

As part of the reporting on Monitoring of the Paris Declaration, surveys were carried out by the Government of the Republic of Moldova for covering the years 2005 and 2007. For the 2005 Survey, sixteen donors responded to the survey; together, they provide around 84% of Moldova's official development assistance (ODA). In 2007, the number of donors who responded to the survey was 20. Both surveys included all major donors.

(i) Completeness and timeliness of budget estimates by donors for project support.

The Unit for Coordination of Foreign Technical Assistance of MOET collects information from donors on projects. This does not request any disbursements nor do the donors supply such information routinely. Some donors are unwilling to prove any financial information beyond the total budget for the lifetime of the project.

Accounting for technical assistance payments to consultants based off-shore who supply services to GOM is minimal.

Nevertheless, the two surveys which cover all large donors provide information relating to this dimension. In 2005, 70% of financial and project aid disbursed for the government sector was recorded in the national budget. For 2007 this figure fell to 57%[34]. One of the main reasons for the inclusion of projects in the budget is that some important donors have established project implementation units (PIUs) in Moldova (some 43 in 2005), which remain outside the government structures, but can provide good financial information. The budget document has an annex table (no 6) which presents information on external loans and grants (and GOM contributions) broken down by Ministry and project/programme. In the last budget, two projects moved from PIUs to ministerial responsibility (one covering health and social protection and another in roads and transport).

Based on the information in the Paris Declaration surveys and the budget a Score C is allocated.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

Loan financed projects that are supported by a co-financing grant are normally implemented through a Project Implementation Unit and these are generally linked to the budget with information on disbursements and forecasts disbursements which are supplied on a monthly basis. Most of these (in 2005, 55 per cent and in 2007, 76 percent) are funded by the World Bank which has a web based information systems for its clients on disbursements. Therefore less than 50% of expenditures planned in the budget for projects financed from external sources are included in the reports presented by donors. At the same time, these reports are not presented according to the budget classification used by the Government.

Score C

	Minimum requirements (Scoring methodology: M1)
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	Score D+ (i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year and at least three months prior to its start. Estimates may use donor classification and not be consistent with the Government's budget classification. Score C (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget. This information does not necessarily provide a break-down consistent with the government budget classification. Score D

D-3. Proportion of aid that is managed by use of national procedures.

(i) Overall proportion of aid funds to central government that are managed through national procedures.

The Paris Declaration survey indicates that from 25% to 39% of aid to Moldova makes use of country systems for budget execution, financial reporting and audit. This covers budget support and the two projects mentioned in D-2(i). These two World Bank projects (the Health Services and Social Assistance Project and the Road Sector Program Support Project) were developed on the basis of making more extensive use of Moldova's public financial management system, rather than stand alone project implementation agencies. This approach include implementing projects within line ministries by employing consultants who transfer knowledge to Ministry staff and performing financial transactions within these projects by using the accounts at the territorial treasuries. While additional safeguards have been put in place, the projects still follow World Bank procurement arrangements. Future projects are likely to continue the trend towards integrating projects within national PFM systems.

[34] The percentages differ from that in PI-7 (ii) as actual budget data is used in that dimension where the survey data percentage is included here.

The most recent Paris Declaration Survey report stated that the use of the country public financial management systems by donors is very limited. Country public financial management system is used only in case of direct budgetary support and loan or grant programs reflected in the national public budget (it should be mentioned that in the case of the second category, the use of country public financial management systems is formal and made based on conditions agreed in the loan contracts, but not according to national procedures). The other cases of development assistance are still outside the country public financial management systems and are implemented according to the procedures set forth by the donor. Essential progress has been registered with regard to the three key fields of public finance management reflected in the 2005 report, during past two years – internal audit, external audit, and financial management informational system – these are at an advanced level of implementation, a fact that could contribute to an increase of donors' trust in the use of the national system. The volume of assistance granted via direct budgetary support has grown significantly as compared to the results of 2005, but as share in the total assistance granted to the government sector, the results are more modest and represent 40%.

The results registered with regard to use of country procurement systems are as follows: adoption and enforcement of new law on public procurement that determines new priorities and new efficient ways of public procurement in the Republic of Moldova, such as the establishment of an automatic register of public procurement, elaboration and implementation of electronic public procurement system. All of this pursues to build an efficient and trustable public procurement system, compatible to the best practices and standards in this field. Also, launched reforms will increase transparency and ensure equitable access for all potential participants, including by creation of an on-line module. Despite all of improvements made, the weight of assistance provided using national procurement system is only 37% and is represented mostly by the sources channelled as direct budget support. While negotiating or launching new projects, the donors maintain the same requirements towards the use of own procurement procedures. An example of procurement procedures harmonization is the case of launching a comprehensive road infrastructure rehabilitation programme in the Republic of Moldova in 2007, with the participation of three creditors, where it was agreed to use common procurement procedure applied by the World Bank.

	Minimum requirements (Scoring methodology: M1)
D-3. Proportion of aid that is managed by use of national procedures	Score D. Less than 50% of aid funds to central government are managed through national procedures.

4: Government reform process

4.1. Recent and on-going reform measures

The reform programme in Moldova comprises three interrelated broad areas of activity: Regulatory Reform, Public Administration Reform and improvement of the Budget process. The Government recognizes that one without the others will be ineffective. The three strands of the reform programme interact as if a coin: budget reform and public administration reform representing the two sides with regulatory reform as the rim that joins them together. Removing one component weakens the other two and inhibits overall effectiveness.

A key priority for the Government is the establishment of a modern and efficient system of public administration consistent with European Union principles of good-governance. The first stage of this reform, during April and May of 2005, has changed the central executive body from 16 ministries and 14 departments to 15 ministries and 13 agencies and national offices. The second stage of the reform is concerned with functional analysis examining the operational analysis of the central public administration authorities. This stage envisages a gradual cut of the government's size to allow a better structure in each ministry, the raising of civil service salaries, the employment of highly qualified experts and as a result the raising of work standards and the elimination of corruption.

The State Commission for Business Regulation has been established to streamline the legislative and institutional framework for business regulation, and monitor the performance of relevant public authorities.

The third strand of the reform programme, but the first to be implemented in 2003 is improving the budget process which has initially been centred on the implementation of the MTEF approach to budgeting. The MTEF in Moldova is based on macroeconomic forecasts and subsequent estimates for a three year period on a rolling basis of revenues and expenditures that reflect fiscal policy (and tax administration), public debt policy and the sources of budget deficit financing. It presents the subsequent resource allocation to service delivery units based on these estimates that reflect both national and sectoral policies and delivery through the State and ATUs budgets. While the MTEF is well established at the macro level setting out the resource envelop and sector ceilings, it only now beginning to tackle the more demanding issues linking resource allocation to policy at the ministerial and sector level. In this respect public administration and regulatory reform are timely and together they all allow the focus of public expenditure to shift to service delivery while maintaining the macro economic and fiscal stability objective.

On January 20th 2006, the Government launched the Public Financial Management (PFM) project which has four components:

1. Components 1 to improve budget planning and execution system by institutionalising the medium term expenditure planning, modernizing budget classification and introducing chart of accounts harmonised with GFS 2001, and implementing an integrated FMIS.
2. Component 2 to develop a system of internal control and internal audit in the central government bodies.
3. Component 3 to establish the training capacity, develop and deliver training to civil servants in financial management.
4. Component 4 to ensure effective project implementation, monitoring and reporting.

This project is to be implemented over the period from launch to 2010. Consultants have been appointed and have been working with the Ministry of Finance to develop the new budget classification and chart of accounts system, improve the budget formulation and execution practices, and lay the foundation for the internal audit system. Part of this work is a review of the Organic Budget Law which may incorporate elements of the PFIC regulations in a new version. The tender for the procurement of the FMIS system is ongoing. Support for the development of the MTEF has been provided by DFID for the past five years.

For a number of years, the Court of Accounts (COA) has benefited from technical assistance provided by the SIDA which ended by the start of 2006. Much remains to be done to strengthen the COA and DFID has provided TA to develop a Strategic Development Plan (SDP) for the COA. On that basis, a coordinated programme of technical assistance for strengthening institutional capacity of the Court of Accounts has been in place since 2007, with support from the Swedish National Audit Office, the World Bank, DFID and the Dutch Government. A revised draft Law governing the COA is presently under preparation and will shortly be presented to Parliament.

This overall reform theme is central to the Memorandum of Economic and Financial Policies with the IMF under a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Under the agreement, fiscal policy will remain tight, given continuing high inflation and the need to ensure macroeconomic stability. The goal is to keep a budget deficit of 0.5 percent of GDP with the policy to channel revenue over-performance to investments, which have a minimal inflationary impact. Given the aim of attracting and keeping qualified employees, wages will be increased though the total wage bill will be kept below 10 percent of the GDP. In parallel to improve public sector effectiveness the government plans to start implementation of the medium-term action plan for rationalizing the structure of employment by downsizing, and consolidation of remuneration in base pay with part of the savings to be used towards improving the quality of public service.

To promote foreign and domestic investments, there was a major reform of the corporate income tax system, as well as a wide-ranging amnesty of tax arrears and a liberalization of capital legalization regulations. In parallel the implementation of Tax Administration Strengthening Strategy has been speeded up to strengthen tax arrears management and the State Tax Inspectorate (STI) will be reorganized along functional lines, beginning with headquarters. Additionally modern accounting and information technology platform will be developed and adequate resources for these reforms to be provided.

Other areas in the agreement with the IMF are the continuation of a tight monetary policy stance to resume disinflation and achieve single digit levels by the year-end, to strengthen competition in the banking system, accelerate privatization of Banca de Economii (BEM) to a strategic banking investor and pursue structural measures aimed at building resilience to external shocks and laying a sustainable foundation for strong inclusive growth. In this context, the central public administration reform, as well as the reform of the business regulatory framework will continue, while measures will be taken to encourage private sector investment which includes privatisation. To increase competitiveness, special attention will be paid to improving the quality of infrastructure through public investment at a high level.

The Strategy is consistent with major policy statements such as the National Development Strategy.

4.2. Institutional factors supporting reform planning and implementation

The overall reform programme outlined above is led by the Government of Moldova with strong leadership from the Prime Minister and the Minister of Finance. In particular, the PFM reform agenda is led by the Ministry of Finance with strong high level support from the Prime Minister's Office. The recently established National Strategic Planning (NSP) Committee is chaired by the Prime Minister. The MTEF Committee, led by the Minister of Finance, reports to the NSP Committee. A MOF PFM task force is responsible for the management of the PFM project. Within that framework, the Service for Financial Revision and Controls leads the reforms of internal financial controls and internal audit, and the Academy of Public Administration is responsible for the training component of the project. The Court of Accounts leads the external audit reform and plays an active role in the broader PFM reform implementation. Parliament is involved in the process as all reforms that require legislation have to be passed by Parliament. Parliament has also to ratify budget support agreements with donors.

The donor community is supporting this reform process through the provision of technical assistance and funding for key equipment and training and providing budget support.

Annex 1: Summary and Explanation of Indicator Scores

	Score	Explanation
PI-1. Aggregate expenditure out-turn compared to original approved budget	C	In 2005 actual primary expenditure was 11.3% above budget and this fell to 8.9% in 2006 before increasing to 15.9% in 2007.
PI-2. Composition of expenditure out-turn compared to original approved budget	A	Variance in expenditure composition exceeded overall deviation in primary expenditure by 3.9% in 2005, and fell to 0.5% in 2006 and zero in 2007.
PI-3. Aggregate revenue out-turn compared to original approved budget.	A	Actual domestic revenue collection was in excess of forecasts in each year from 2005 to 2007 ranging from 9.9% to 13.7% reflecting growth in imports and improvements in customs administration.
PI-4. Stock and monitoring of expenditure payment arrears.	A	The share of arrears as a percentage of total expenditure is declining annually from 1.4% in 2005 to 0.6% in 2007 and debts are now recorded by age.
PI-5. Classification of the budget	C↑	The budget classification is based on GFS 1986 and recent work has been carried out to conversion to GFS 2001 which will be implemented in 2010 alongside the FMIS. Recent improvements have taken place on compliance with GFS 1986 with respect to the functional classification.
PI-6. Comprehensiveness of information included in budget documentation.	A	Budget documentation is comprehensive and meets 8 out of the 9 elements for good budget information.
PI-7. Extent of unreported government operations	B+	There is no extra budgetary expenditure as all special means and special funds are included in the budget. The majority of Donor funding - all credits and over 50 per cent of grants - is included in the budget and in the MTEF.
PI-8. Transparency of Inter-Governmental Fiscal Relations	A	The legal basis for inter government transfers is set out in the appropriate laws and transfers are formulae driven and applied in practice. Information is timely for budgeting.
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C+↑	While there is a good data base on SEs and JSC which is used for financial analysis, it is presently unaudited. External audit will be performed for all large public sector entities from January 1, 2008. Transfers to sub national government (ATUs) are strictly controlled through the monthly allocations limit process and cannot be exceeded without MOF approval. The Territorial Treasuries will only allow local governments to spend actual resources collected. Each local government must provide details of total "arrears" not paid at the end of each month. A consolidated budget execution report is produced and approved by local councils on a monthly basis.
PI-10. Public Access to key fiscal information	A	Public access to information is good through statutory reports and use of web sites. Some information is only made available if requested, but nevertheless is

		available.
PI-11. Orderliness and participation in the annual budget process	A	There is a clear and well understood budget calendar and the budget is submitted on time to Parliament. The participants and their tasks in the budget process are identified.
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B↑	The MTEF is based on a 3 year rolling forecast of the resource envelop which determines the fiscal framework for the annual budget. Resource allocation is based on the development of strategic plans of expenditures at the sector level which are MOF driven. The bottom up element of the MTEF is being developed. Change in policy towards investment has necessitated the development of skills and a process for the identification and selection of investment projects so that new projects can also be considered. Pilots in investment procedures have been developed in Transport and Water, and Sanitation sectors. However, the level of investment cycle skills is low particularly in the LMs while the central ministries are more concerned with registration and recording.
PI-13. Transparency of Taxpayer Obligations and Liabilities	A	Tax legislation is available from the two tax departments' websites and regular tax payer education is carried out. Appeals mechanisms exist and are implemented.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	B+↑	Each taxpayer is assigned a TIN which is used as an identification and compliance vehicle. Tax penalties are established in the tax laws and are set at deterrence levels. Audits by the SFS are based on traditional practices of inspections rather than modern audit techniques. Customs applies the risk assessment module of ASYCUDA.
PI-15. Effectiveness in collection of tax payments	D+	The proportion of arrears that are collected is low which reflects historical arrears which are unlikely ever to ever to be collected. As a result SFS arrears were written-off and a new system of maintaining an age profile of arrears is being developed. Similar treatment to Customs' arrears (albeit not significant) is warranted. Revenues are paid into the ST bank account and reconciliation is timely.
PI-16. Predictability in the availability of funds for commitment of expenditures	C+	Cash flows allocation is done annually and is adjusted on a needs basis, based on expenditure need and revenue forecasts. Cash limits are rigidly applied. In-year cash forecasting has improved through the creation of the Committee for liquidity evidence composed of representatives of the MOF, NBM, CIFMA and SSIB
PI-17. Recording and management of cash balances, debt and guarantees.	B+	The State Treasury manages the cash flow for the State Budget (includes transfers to other budgets/agencies only) and cash balances are recorded daily. Debt is recorded and reconciled on a timely basis and there have been recent enhancements to the debt management software. Previous weaknesses in the legislation governing guarantees and contingent liabilities have been resolved in the Law on Public Debt, State

		Guarantees and On-lending.
PI-18. Effectiveness of payroll controls	B+	There are no centralised personnel or payroll facilities and staffing functions are completely decentralised. There appears to be a strong control system to ensure that changes to personnel data are correctly reflected in the payroll system. Major LMs use computerized payroll software. Smaller budgetary institutions use either computerised or manual payroll systems. The arrangements that exist appear to be sound and secure.
PI-19. Competition, value of money and controls in procurement.	B	A new Public Procurement Law was enacted that brings Public Procurement in line with international standards and practices The more positive aspects concern the decentralization of procurement function to the spending entities, a greater degree of separation in responsibilities within public procurement and increased transparency. Data from AMRPPHA shows that 91% of contracts by value and 93% by number of contracts were procured through competitive open bidding or shopping procedures in 2007 which is an improvement from the previous Assessment. A major problem which remains to be resolved is the consistent application of the Law by budget institutions. As a result further work is needed in order to develop a well-functioning procurement system that ensures that money is used effectively and efficiently. The legal provisions for complaints are, in general, clear and provide for oversight by the AMRPPHA.
PI-20. Effectiveness of internal controls for non-salary expenditure	B	A rigid control system in respect of expenditures, in particular the monthly cash limits, is in place. There are manual processes for seeking approval for changes which are difficult to operate. Comprehensive internal controls/rules are in place and budget institutions are inspected by the FCRS once every two years. Visits are focused in ensuring compliance with the Law rather than on identifying improvements to systems of financial management or internal control.
PI-21. Effectiveness of Internal Audit	C+↑	There are currently ten internal audit (IA) units in place in major public institutions. These IA units have been established independently and currently lack an overall harmonised methodological framework. The current work undertaken by these units is predominantly ex-post financial inspection. Units are not conducting their activities on the basis of modern risk assessment methodology and there is a need for continued training on internal audit techniques. Three pilot internal audits in the MOF adopted a systems approach (i.e. conducting an evaluation of business processes, an analysis of internal controls and an evaluation of its effectiveness. The FCRS continues to perform ex-post verifications of the execution of the budget.
PI-22. Timeliness and regularity of accounts reconciliation	A	The State Treasury is serviced through the Single Treasury Account with the NBM, through which all central Government revenues and expenditures are recorded. All transactions of the ST can be accessed in

		real-time through on-line access to the account at the NBM. Reconciliations between Bank and ST records are performed on a daily basis. There are no suspense accounts in operation at present under Treasury Operations. There are well documented procedures for advance payments and there is no evidence to suggest that there are any problems.
PI-23. Availability of information on resources received by service delivery units	B	Information is readily available from both central and local levels. Primary units are reliant on the local mayor's office for accounting services and this appears to be operating satisfactorily.
PI-24. Quality and Timeliness of in-year budget execution reports	C+	The ST's systems produce accurate reports comparing actual expenditures/revenues with approved budgets. These systems do not have any capacity to hold financial commitments data, although they do hold details of all contracts entered into. The ST produces monthly and quarterly reports, normally within 4 weeks of the end of the financial period. Local institutions are responsible for maintaining their own accounting records.
PI-25. Quality and timeliness of annual financial statements.	C+	An annual budget execution statement is produced which covers adequately the execution position. Separate budget execution statements are also produced for CIFMA and SSIB and these are consolidated into one document. This document is the Report on State Budget Execution. However, the execution statements are not the same as annual financial statements as no detail of financial assets/liabilities, nor information on fiscal risk or contingent liabilities is included. A separate volume includes financial information/analysis statements to accompany the budget execution report. There are 11 further volumes which cover other financial reporting.
PI-26. Scope, nature and follow-up of external audit.	C+	The mandate of the COA is wide ranging - it is free to audit any public body. COA data indicates 60% audit coverage of total expenditures in 2006 and 100% of revenues. Generally the COA appears to be conducting this compliance function effectively and is gradually introducing modern audit practises in its work programme. COA reports are finalized after consultation with officials of the audited entity at formal session of the Court.
PI-27. Legislative scrutiny of the annual budget law.	B+	Budget forecasts and underlying macroeconomic assumptions are presented to Parliament whose Economic and Finance Committee has primary responsibility for budget submissions. The Government submits the Draft Budget Law to Parliament by October 1 and it is approved by Parliament by December 5 after three readings.
PI-28. Legislative scrutiny of external audit report	D	The COA Chairman presents a summary report on the management of the State Budget to Parliament and COA is also required to present the results of ad-hoc audits requested by factions within Parliament. Government prepares an action plan for follow-up, but there is general lack parliamentary involvement in the work of

		the COA. The results of the Court's control activities do not tend to be discussed in Parliament or its committees.
D-1. Predictability of Direct Budget Support	D+	Budget support is provided by the EC and World Bank (with UK and Holland support). However, meeting conditionality conditions and assessment delays has meant that the timing of disbursements is not predictable.
D-2. Financial information provided by donors for budgeting and reporting on project and programme aid	D+	The External Technical Assistance Coordination Unit of MOET collects project information from donors, but not on disbursements nor do the donors supply such information routinely. Nevertheless there have been two surveys for Paris Declaration reporting purposes which have provide details on donor support. Loan financed projects that are supported by a co-financing grant are generally linked to the budget with disbursement and forecasts disbursements supplied on a quarterly basis. Most of these are funded by the World Bank who has a web based information systems for its clients on disbursements.
D-3. Proportion of aid that is managed by use of national procedures	D	While there is now budget support that uses national procedures, it is unusual to find any donor using the procedures currently for procurement, accounting and audit reasons.

Annex 2: Meetings

Agenda
PEFA - 2008
Mr. John Short and Mr. Andrew Mackie
Mission dates: April 6 - 20, 2008

Meetings will be coordinated by Mme. Liudmila Caziuc –

WB team members Mm. Elena Nikulina and Mr. Andrei Busuioc

Driver: Alexei Vrabie

Interpreters: Cristina Cotofana, Marina Aidova and Natalia Ciumacenko

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Sunday, 6 April 2008		
	Arrival Chisinau		
	Monday, 7 April 2008		
09:00 – 10:00	• World Bank office briefing	**yes**	**yes**
10:00 – 12:00	• PEFA launch with Government and Donors	**yes**	**yes**
14:00 – 17:00	• Meeting with the Ministry of Finance in two teams: 1. Mr. Vasile Bulicanu, Head of Budget Synthesis General Division, Ministry of Finance Mm.Emilia Prujanschi, Head of the Budget Revenues Forecasting and Analyses Division Mm.Liubovi Ivanciucova, Head of the State Budget and National Public Budget Division Mm.Nina Rotari, Head of the Budget Policies Summarizing and Macroeconomic Division 2. Mm. Angela Voronin, Head of the State Treasury Mr.Alexandru Prohnitschi, Deputy Head of the State Treasury Mm.Svetlana Purici, Head of Directorate on National Public Budget Reports (str.Cosmonautilor, 7)	**yes**	**yes**

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Tuesday, 8 April 2008		
08:30 – 10:00	• Mm.Lucretia Ciurea, Head of Section for Coordination of External Assistance, Apparatus of the First Deputy Prime-Minister • Mr.Dumitru Udrea, Apparatus of the First Deputy Prime-Minister • Mr.Ion Lupan, Head of Foreign Economic Cooperation Division, MOET • Mm.Tatiana Udrea, Head of Division for Cooperation with Development Partners, MOET (Piata Marii Adunari Nationale, 1, str.Pushkin side, office 546)	yes	yes
10:00 – 12:00	• Mr. Ion Borta, Head of Financial Control and Revision Service • Mm. Diana Axenti, Deputy Head of Financial Control and Revision Service (str.Alexandru cel Bun, 48)		yes
10:00 – 12:00	• Mm.Viorica Neclea, Economist, MTEF Team • Mr. Andrew Bird, MTEF team (Consultant) (Ministry of Finance building, str.Cosmonautilor, 7, office 225)	yes	
13:00 – 15:00	• Mr. Teodor Potirniche, General Deputy Director of Public Procurement Agency (str.Columna, 118)	yes	yes
15:00 – 17:00	• Mm.Elizaveta Foca, Vice President of the Court of Account • Mr.Gheorghe Cojocari, member, Court of Accounts (bul.Stefan cel Mare, 162)		yes
15:00 – 17:00	• Meeting with the Ministry of Finance: Mr. Vasile Bulicanu, Head of Budget Synthesis General Division, Ministry of Finance Mm.Emilia Prujanschi, Head of the Budget Revenues Forecasting and Analyses Division Mm.Liubovi Ivanciucova, Head of the State Budget and National Public Budget Division Mm.Nina Rotari, Head of the Budget Policies Summarizing and Macroeconomic Division Mm.Viorica Neclea, Economist, MTEF Team Mr. Andrew Bird, MTEF team (Consultant)	yes	

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	(str.Cosmonautilor, 7)		
	Wednesday, 9 April 2008		
09:30 – 11:00	• Mr.Gheorghe Sircu, Head of General Division for development of human resources, labour and salary policies, Ministry of Economy and Trade (Piata Marii Adunari Nationale, Government building, office 255)	**yes**	**yes**
11:00 – 12:00	• Mm.Maria Borta, Head of National Social Insurance House • Mm.Tatiana Popa (str.Gheorghe Tudor, 3)	**yes**	**yes**
14:00 – 16:00	• Donors meeting: Mm.Melani Marlett, WB Mm.Elena Nikulina, WB Mr.Andrei Busuioc, WB Mm.Lilia Razlog, Sida Mm.Alla Skvortova , DFID Mr.Alexander Osadcii, EC Delegation USAID Mm.Caarina Immonen, UNDP (World Bank office)	**yes**	**yes**
	Thursday, 10 April 2008		
09:00 – 11:00	• Mr.Gheorghe Rusu, Head of National Mandatory Health Insurance Fund • Mr.Victor Pascal, Deputy Head responsible for regions (bul.Renasterii, 12)	**yes**	**yes**
11:00 – 12:00	• Mr.Des Smallman, PFM project (str.Cosmonautilor, 7)		**yes**
13:00 – 15:00	• Mm.Larisa Cozmali, Consultant, Economic, Finance and Accounting Division, Ministry of Health • Mr.Anatolie Gudumac, Head of Section of Economic, Finance and Accounting Division, Ministry of Health • Mr.Ghenadie Turcanu, Head of Unit for Analyses, Monitoring, and Policy Evaluation,		**yes**

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Ministry of Health (str.Vasile Alexandri, 2, office 102)	yes	
15:00 – 17:00	• Mr.Tudor Ciobanash, Head of Budget Division, Ministry of Social Protection, Family and Children • Mr.Vladimir Marit, Head of Unit for Analyses, Monitoring, and Policy Evaluation, Ministry of Social Protection, Family and Children (str.Vasile Alexandri, 1, office 219)	yes	yes
	Friday, 11 April 2008		
08:15 – 10:00	• Mr.Nicolae Bondarciuc, Head of Parliamentary Committee for Economy, Budget and Finance (str.Stefan cel Mare, 105, office 710)	yes	yes
10:00 – 12:00	• Mm.Liubov Istrati, Deputy Head of State Tax Inspectorate • Mm.Svetlana Ciumac, Head of the Division for Strategic Management and Organisation of Activities, State Tax Inspectorate (str.Cosmonautilor, 9, anticamera)	yes	
10:00 – 12:00	• Mm.Svetlana Purici – Head of Directorate on National Public Budget Reports, Ministry of Finance (str.Cosmonautilor, 7, office 210)		yes
13:30 – 15:00	• Mm.Natalia Calenic, Head of the Unit for Analyses and Strategic Planning, European Integration, Customs Bureau • Mr.Mihai Raducan, Head of Internal Audit Division, Customs Bureau • Mm.Natalia Ciumacenco, Head of the Customs Revenues Unit, Customs Bureau • Mm.Valentina Popa, Head of Unit for Customs Tariffs' Methodology • Mr.Petru Balan, Deputy Head of the Law and Juridical Assistance Division, Mm.Diana Gorea, Consultant of the Unit for Analyses, Strategic Planning and European Integration (str.Columna, 30, office 218)	yes	
13:30 – 15:00	• Mr.Alexandru Prohnitschi, Deputy Head of the State Treasury, Ministry of Finance (str.Cosmonautilor, 7)		yes

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
15:30 – 17:00	• Mr.Dorin Recean, Head of the private company (str.Banulescu-Bodoni, 45, office 207)	**yes**	**yes**
	Saturday, 12 April 2008		
	Sunday, 13 April 2008		
	Monday, 14 April 2008		
11:00 – 12-00	• Mr.Johan Mathisen – Permanent Representative of the IMF (Piata Marii Adunari Nationale, Government building, central entrance, office 123)	**yes**	
13:30 – 15:00	• Mr.Iurii Torcunov, Head of Macroeconomic Analyses Directorate, Ministry of Economy and Trade • Mm.Lilia Tolocico, Deputy Head of Macroeconomic Analyses Directorate, Ministry of Economy and Trade (Piata Marii Adunari Nationale, Government building, office 224)	**yes**	
15:00 – 17:00	• Mr.Viorel Pana, Deputy Head of the National Economic Finances and Capital Investments (str.Cosmonautilor, 7, Ministry of Finance, office 310)	**Yes**	
15:00 – 17:00	• Mm.Elizaveta Foca, Vice President of the Court of Account • Mr.Gheorghe Cojocari, member, Court of Accounts (bul.Stefan cel Mare, 162)		**yes**
	Tuesday, 15 April 2008		
09:00 – 11:00	• Mm.Vera Slopac, Head of Monitoring & Financial Analyses division, Ministry of Finance (str.Cosmonautilor, 7, office 332)	**Yes**	**yes**
11:00 – 12:00	• Mm.Natalia Catrinescu, Head of General Division of Macroeconomic Policies & Development Programmes (Piata Marii Adunari Nationale, Government building, office 223)	**Yes**	
13:30 – 15:00	• Mm. Natalia Agapii, Public Debt Department, Ministry of Finance (str.Cosmonautilor, 7, office 316)	**Yes**	**yes**
15:00 – 17:00	• Mr.Vadim Ceban, Head of General Division for Capital Investments • Mr.Vladimir Crivciun, Head of the Direction for Investment Policies and Evidence of	**Yes**	

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	the Public Property, Ministry of Economy and Trade (Piata Marii Adunari Nationale, Government building, office 235)		
	Wednesday, 16 April 2008		
08:00 – 17:00	• Field trip mission to rayon Nisporeni Mr.Ion Munteanu, President of the Rayon Nisporeni Financial Division, rayon Nisporeni: Mm.Nina Brinzila, Head of Financial Division Mm.Vera Lazari, Head of Budget Execution Unit Mm.Maria Patira, Head of Budget Development Unit Treasury, Nisporeni: Mm.Nina Gutanu, Head of the Treasury Mayor office, village Varzaresti, rayon Nisporeni: Mr.Vasile Gutanu, Deputy Mayor, village Varzaresti Mm.Zinaida Capatina, Chief Accountant of Mayor office (Nisporeni, str.Ion Voda, 2, 1 floor)	**yes**	**yes**
	Thursday, 17 April 2008		
09:00 – 11:00	• Mm.Ecaterina Rebeja, Head of Accounting and Financing Division, National Mandatory Health Insurance Fund • Mm.Lilia Gisca, Head of Analyses, Monitoring and Marketing Division, National Mandatory Health Insurance Fund (bul.Renasterii, 12)		**yes**
11:00 – 12:00	• Mr. Paolo Berizzi, First Secretary, EC Delegation (str.Cogalniceanu, 12)	**yes**	**yes**
12:00 – 17:00	• International Conference “Business regulatory and tax administration reforms”	**yes**	
	Friday, 18 April 2008		
10:00 – 12:30	• Briefing of PEFA team (World Bank’ office)	**yes**	**Yes**
13:00 – 14:30	Wrap up meeting in the Ministry of Finance: Mm.Nina Lupan – Deputy Minister Mr. Vasile Bulicanu, Head of Budget Synthesis General Division	**yes**	**Yes**

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Mm.Nina Rotari, Head of the Budget Policies Summarizing & Macroeconomic Division Mm. Angela Voronin, Head of the State Treasury Mr.Alexandru Prohnitschi, Deputy Head of the State Treasury Mm.Svetlana Purici, Head of Directorate on National Public Budget Reports (str.Cosmonautilor, 7)		
14:30 – 16:00	• Mr. Teodor Potirniche, General Deputy Director of Public Procurement Agency (str.Columna, 118)		**Yes**

Agenda
PEFA - 2008
Mr. John Short and Mr. Andrew Mackie
Mission dates: May 28 – June 6, 2008

Meetings will be coordinated by Mme. Liudmila Caziuc –

WB team members Mm. Elena Nikulina and Mr. Andrei Busuioc

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Thursday, 29 May 2008		
	Arrival Chisinau		
	Friday, 30 May 2008		
08:30 – 10:00	• Meeting with the Ministry of Finance Mr. Vasile Bulicanu, Head of Budget Synthesis General Division, Ministry of Finance Mm. Emilia Prujanschi, Head of the Budget Revenues Forecasting and Analyses Division Mm. Liubovi Ivanciucova, Head of the State Budget and National Public Budget Division Mm. Nina Rotari, Head of the Budget Policies Summarizing and Macroeconomic Division Mm. Ala Cislaru, Head of Local Budgets Division (str.Cosmonautilor, 7)	**yes**	**yes**
10:30 – 12:00	• Donors meeting: Mr. Luca Barbone, WB Mm. Melani Marlett, WB Mm. Elena Nikulina, WB Mr. Andrei Busuioc, WB Mr. Johan Mathisen, IMF Mm. Nina Orlova, Sida	**yes**	**yes**

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	Mm. Lilia Razlog, Sida Mm. Alla Skvortova , DFID Mr. Paolo Berizzi, EC Delegation Mr. Alexander Osadcii, EC Delegation Mm .Caarina Immonen, UNDP (World Bank office)		
13:30 – 15:00	• Mm. Elizaveta Foca, Vice President of the Court of Account • Mr. Gheorghe Cojocari, member, Court of Accounts (bul.Stefan cel Mare, 162)		**yes**
15:00 – 16:00	• Mm. Vera Slopac, Head of Monitoring and Financial Analyses division, Ministry of Finance (str.Cosmonautilor, 7, office 332)		**yes**
15:15 – 16:30	• Mm. Liubov Istrati, Deputy Head of State Tax Inspectorate • Mm. Svetlana Ciumac, Head of the Division for Strategic Management and Organisation of Activities, State Tax Inspectorate (str.Cosmonautilor, 9, anticamera)	**yes**	
	Saturday, 31 May 2008		
	Sunday, 1 June 2008		
	Monday, 2 June 2008		
10:00 – 11:00	• Mm. Nina Lupan, Deputy Minister of Finance	**yes**	**yes**
11:00 – 12:00	• Meeting with the Treasury staff Mm. Angela Voronin, Head of the State Treasury Mr. Alexandru Prohnitschi, Deputy Head of the State Treasury Mm. Svetlana Purici, Head of Directorate on National Public Budget Reports (str.Cosmonautilor, 7)		**yes**
13:30 – 14:30	• Mm. Natalia Calenic, Head of the Unit for Analyses and Strategic Planning, European Integration, Customs Bureau • Mr. Mihai Raducan, Head of Internal Audit Division, Customs Bureau • Mm. Natalia Ciumacenco, Head of the Customs Revenues Unit, Customs Bureau	**yes**	

Time of the meetings	Date of meetings and authorities contacted	John Short` meetings	Andrew Mackie` meetings
	• Mr. Petru Balan, Deputy Head of the Law and Juridical Assistance Division (str.Columna, 30, office 218)		
14:00 – 16:00	• Meeting with the Treasury staff Mm. Angela Voronin, Head of the State Treasury Mr. Alexandru Prohnitschi, Deputy Head of the State Treasury Mm. Svetlana Purici, Head of Directorate on National Public Budget Reports (str.Cosmonautilor, 7)		**yes**
16:00 – 17:00	• Mr. Teodor Potirniche, General Deputy Director of Public Procurement Agency (str.Columna, 118)	**yes**	**yes**
	Tuesday, 3 June 2008		
09:00 – 10:00	• Mm. Lucretia Ciurea, Head of Section for Coordination of External Assistance, Apparatus of the First Deputy Prime-Minister • Mr. Dumitru Udrea, Apparatus of the First Deputy Prime-Minister (Piata Marii Adunari Nationale, 1, str.Pushkin side, office 546)	**yes**	**yes**
	Wednesday, 4 June 2008		
10:00 – 12:00	• Meeting with the Ministry of Finance (Comments/Discussions on other countries' practices and proposals on the MOF problems solving)	**yes**	**yes**
12:00 – 13:00	• Mm. Mariana Durlesteanu, Minister of Finance	**yes**	**yes**
13:00 – 16:00	Meeting with MOF for report discussion: • Mr. Vasile Bulicanu, Head of Budget Synthesis General Division, Ministry of Finance (str.Cosmonautilor, 7)	**yes**	
	Thursday, 5 June 2008		
10:00 – 12:00	• PEFA report` presentation	**yes**	**yes**
	•		
	Friday, 6 June 2008		
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Annex 3: Documents Consulted

Center for Economic Policies Institute for Development and Social Initiatives (IDSI) “Viitorul” Policy Brief: Local Finances Decentralization May 2007
EU Moldova Action Plan
Government of Moldova Economic Growth and Poverty Reduction Strategy Paper (2004-2006), May 2004
Government of Moldova Annual Evaluation Report on Implementation of The Economic Growth and Poverty Reduction Strategy Paper – 2005
Government of Moldova National Development Strategy and Action Plan
Government of Moldova MOET Macro-economic Modelling Reports (Consultants)
Government of Moldova Medium Term Expenditure Framework (various years)
Government of Moldova Social Trends
Government of Moldova State Budget Law (various)
Government of Moldova Various Laws
- Budget Systems Law
- Customs Code
- Law on Customs Tariff
- Tax Code
- Law on System of Social Insurance
- Law on Local Public Finance
- Law Amending Local Administration
- Law on Government of Republic of Moldova
- Law on Procurement
- Law on Public Debt, State Guarantees and On-Lending from State Borrowing

National Bureau of Statistics Statistical Yearbook
IMCL Inception Report and Progress Report Technical Assistance for the Integrated Financial Management Information System Concept Public Finance Management Project
IMF PRGF Agreement and Assessments
IMF Tax Administration Reports Various
PEFA Public Financial Management Performance Measurement Framework June 2005
UNDP Human Development Reports, various
USAID Collecting and Paying Taxes in Moldova: A Tax Benchmarking Exercise Prepared by DAI)
World Bank Country Financial Accountability Assessment (CFAA) Moldova, 12 Sept 2003.
World Bank Country Procurement Assessment Report (CPAR) Moldova June 30 2003.
World Bank Public Finance Management Project
World Bank PRSCII 15 April 2008