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Public Expenditure and Financial Accountability (PEFA) Assessment update for Moldova (2008-2010)

October 2011

Project funded by:
The European Union

Project implemented by:

Republic of Moldova

Public Expenditure and Financial Accountability Assessment

Public Financial Management Performance Report

October 2011

FWC contract no ECFIN-012-2011: **Specific Contract No. ECFIN/185/2011/599232**

PKF
Accountants & business advisers

4assist
Four Assist Limited
Development Consulting

FWC Beneficiaries 2009 - Lot 11: **Request 2011/267804 - Version 1**

ADE
ANALYSIS FOR ECONOMIC DECISIONS

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Acronyms

AGA	Autonomous Government Agency
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
CS	Customs Service
DEL	Departmental Expenditure Limit
DFID	Department for International Development
DMFA	The Department of Monitoring and Financial Analysis
DMFAS	Debt Management and Financial Analysis System
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
IPSAS	International Public Sector Accounting Standards
JSC	Joint Stock Companies
LG	Local Government
LLPF	Law on Local Public Finance
LBSBP	Law on Budget System and Budget Process

MDAs	Ministries, Departments and Agencies
MEUAP	Moldova - European Union Action Plan
MOE	Ministry of Economy
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
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
PPA	Public Procurements Agency
PRGF	Poverty Reduction Growth Facility
SAI	Supreme Audit Institution
SE	State Enterprise
SIDA	Swedish International Development Agency
SN	Sub National
SSIF	State Social Insurance Fund
ST	State Treasury
STS	State Tax Service
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
TT	Territorial Treasury
UNDP	United Nations Development Programme
VAT	Value Added Tax

Fiscal year – calendar year

Exchange rate (30 September 2011) 1 USD = 11.92 MDL

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Acknowledgements

The 2011 PEFA assessment was commissioned by the European Commission. Two consulting teams contracted by the EU Delegation to Moldova and the Directorate-General for Economic and Financial Affairs (DG ECFIN) were responsible for conducting the assessment in partnership with the relevant institutions of the Government of Moldova.

The DG ECFIN team was composed of Yiannis Hadziyiannakis and Gnel Sedrakyan, and was allocated a total 49 work-days for the assignment. The EUD team was allocated a total of 96 work-days and was composed of Ilse Schuster, Peter Menhard and Ion Osoian. The DG ECFIN team was responsible for assessing the performance indicators under components A, B and C(i) as well as PIs 16 and 27. The EUD team was responsible for components C (ii, iii, iv) and D.

The experts express their gratitude for the impeccable way in which the Ministry of Finance organised and participated in the work. The team also expresses its gratitude to the Court of Accounts, the National Bank of Moldova, the Parliament Committee for Budget, the Chisinau City, line ministries and state agencies for the active involvement and cooperation. It also would like to thank the EU Delegation and DG ECFIN for their contribution in the management and organisation of the assignment.

The experts benefited greatly from the advice of resident missions of the International Monetary Fund and World Bank.

Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011	Score 2008
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	C
PI-2	Composition of expenditure out-turn compared to original approved budget	B+	A
PI-3	Aggregate revenue out-turn compared to original approved budget	B	A(C)*
PI-4	Stock and monitoring of expenditure payment arrears	A	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	B	C↑
PI-6	Comprehensiveness of information included in budget documentation	A	A
PI-7	Extent of unreported government operations	A	B+
PI-8	Transparency of inter-governmental fiscal relations	A	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	B+	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	B	A
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	A	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	A	B+
PI-18	Effectiveness of payroll controls	B+	B+(D+)**
PI-19	Transparency, competition and complaints mechanisms in procurement	B	B
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	B	B
PI-21	Effectiveness of internal audit	C+	C+↑
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	A	A
PI-23	Availability of information on resources received by service delivery units	A	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	B+	C+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	C+	D
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D	D+
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	C+	D+
D-3	Proportion of aid that is managed by use of national procedures	C	D

*NB. Should the updated methodology been applied the score would have been C in the 2008 PEFA.
**NB. B+ is for line Ministries, D+ is for primary school teachers

Summary Assessment

The Government of Moldova had prepared a comprehensive self-assessment in advance of the deployment of the consulting teams. This self-assessment formed an excellent basis for the work.

(i) Integrated assessment of PFM performance

A. Credibility of the budget

This component of PEFA covers performance indicators PI-1 to PI-4. These indicators examine the degree of integrity and reliability of budget planning, and to a certain extent provide insight into fiscal management. The first three indicators compare actual expenditure and revenue outturn with original appropriations in the budget law and the fourth indicator examines whether unfulfilled expenditure obligations can be a risk for budget and fiscal management.

Moldova has performed well in the period under review under PEFA 2011 and there has been a marked improvement since the PEFA 2008 assessment. PI-1 has achieved an improved score indicating an overall improvement in aggregate budget discipline and the commitment of Government to fiscal sustainability. This took place in adverse circumstances due primarily to the external shock caused by the global economic crisis as well as the internal disruptions related to the protracted electoral period in 2009 and 2010. The same applies to the good performance in PI-3. Revenue outturn as compared to the original plan was better in the three years reviewed by PEFA 2011 than the performance recorded by PEFA 2008. It is noted that this conclusion is derived when using the updated PEFA methodology (which correctly factors in “over-performance” of revenue targets) for both periods.

The deterioration in performance of PI-2 is to a great extent attributed to the impact of the economic crisis, which posed a serious strain on resources and inevitably led to considerable reprioritisation of expenditure. As discussed in Chapter 2.3 of this report, the Government managed to maintain fiscal stability without compromising investment and social expenditure. The data in PI-2 shows that the main reason behind the variance in expenditure composition have been the continuous and substantive in-year increases in allocations to the agriculture sector.

There has been no increase in the stock of arrears of central government budget since PEFA 2008 despite the economic crisis, and monitoring processes remain in place. PI-4 has achieved the highest score. However, there are concerns with the building-up of arrears by public entities other outside the control of central government levels, which is not captured by the coverage of this indicator.

B. Comprehensiveness and transparency

This group of indicators PI-5 to PI-10 assesses the architecture of public financial management by looking into core budget and fiscal instruments of Government as well as the important issue of public access to fiscal information.

The Moldovan budget classification system captures all basic elements of an administrative, economic and functional classification. There are immediate plans to upgrade the chart of accounts and budget classification to a system fully compliant to GFS 2001. When this is done Moldova would be able to achieve the highest score in PI-5. Budget comprehensiveness and information still qualifies for a top score in PI-6 as was the case in the 2008 PEFA assessment. The same applies for PI-10 confirming that access to fiscal and budget information in Moldova by the broader public remains uncomplicated and straightforward.

The PEFA 2011 assessment also confirms that there are no unreported government operations and that all projects funded by major donors are part of budget appropriations and fiscal reports as required by PI-7. Moldova continues to score the highest mark for PI-8 covering inter-governmental fiscal relations as stipulated by the PEFA criteria. There have been disruptions during 2010 (2011 budget preparation process) that led to a lower score for one of the dimensions. This however does not affect the overall score assigned to the indicator.

The draft annual budget documentation includes an overall statement regarding fiscal risk supported by aggregated financial information from State Enterprises (SEs) and Joint-Stock Companies (JSCs).

The financial data supplied by SEs and JSCs to the National Bureau of Statistics (NBS), which are used by MoF for compiling the report on their financial operations, are subject to independent external audit. This was put in force with the promulgation of the new Law on Audit Activity (No. 61-XVI of the 16^{th} of March 2007) in 2009. There is therefore a clear systemic improvement in relation to PI-9 but there is need for further work to assure quality and subsequent analysis of financial information received by these entities.

Overall Moldova has preserved, and marginally improved, the public financial management systems covered by this component of PEFA during the period under review by the 2011 PEFA assessment.

C. Budget cycle

Policy-based budgeting

Indicators PI-11 and 12 constitute the first of four components of PEFA covering the *Budget Cycle*. They reflect the extent to which budget allocations are made in an orderly and rational manner, as well as whether a strategic context exists linking policies and priorities with budget spending over the medium term.

Moldova has performed well in this regard despite marginal deterioration in the score of PI-11 caused mainly by disruptions in the preparation process of 2009 and 2010 budgets. This deterioration is attributed to problems with adherence to the budget calendar the primary cause of which is external and not deemed to be systemic. The Ministry of Finance has been exemplary in maintaining integrity in the budget process in spite of difficulties in the political domain.

The Moldovan Medium Term Expenditure Framework adequately reflects broader economic development and sectoral priorities included in the National Development Strategy (NDS). There is good understanding of the importance of reliable medium term budget and fiscal planning which manifested by the high score in PI-12 but also reflected by the high scores in the first component of PEFA, in particular PIs 1 to 3.

Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

The operations of the Customs Service (CS) and State Tax Service (STS) are governed by largely transparent legal framework and relevant information is available to taxpayers and customs traders on different media and from various sources. The operational procedures should be improved through enhanced regulations and modernised business processes. The CS collects the customs duties and taxes at the border with support of ASYCUDA World IS, which includes an automated *customs clearance* risk assessment, but without risk assessment mechanism for *post clearance audit* controls. The information systems of the STS are less integrated, but a new integrated IS has a high strategic priority. The main shortfalls in the STS operations relate to the arrears collection and to the enforcement measures. The exchange of tax information is based on bilateral agreements; with ST reporting on payments on a daily basis and with CS on a monthly basis on import/export and on a daily basis on high risk goods.

The Treasury system, implemented through the FMIS currently operated by the Ministry of Finance, is the main factor in providing proper authorization processes and controlling expenditure, ensuring that budget institutions do not exceed the available appropriation and the monthly allocation. The financial control system can therefore be considered as sound. The development of the Single Treasury Account (TSA) system was finalised in March 2007 when all budgets, including the whole local level as well as SSIF and CIFMA, were executed via the TSA, which is held in the National Bank of Moldova. All revenue is thus collected on the TSA and all payments are executed from there.

Expenditure control is concentrated in the State Treasury within the MoF and in the Territorial Treasuries. As regards debt management, a mid-term debt management strategy has been developed with donor support which includes a fiscal risk analysis and indicators for risk monitoring.

As regards internal auditing, the successful move from the inspection system and the concept of a centralised internal audit service (in force during the 2008 Assessment) to the concept of PIFC, in line with the requirements of EU partnership agreements, represents a significant progress. New legislation has been enacted and the methodological basis for internal audit has been set, however implementation still lags behind. Further to the change of scope of the Court of Accounts on certification of the accounts of the State, a reorganization of the Financial Control and Revision Service (FCRS) has started. The FCRS continues to carry out an inspection function until a system of financial management and control has been established, and will then gradually refocus its activities into an investigation body for fraud and irregularities.

In November 2009, the Agency for Material Reserves, Public Procurements, and Humanitarian Aids (AMRPPHA) was transformed into the Public Procurement Agency (PPA), an independent agency subordinated to the MoF. The PPA has taken over the AMRPPHA's procurement related functions with exception of the responsibility for the procurement of material reserves. The PPA is however still involved in review and approval of all contracts concluded by contracting authorities, for ensuring legal compliance.

Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of records and information produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

Accounting is carried out in a dual way: Centralised on cash basis using the Treasury System and decentralised on modified accrual basis by the budget institutions, whereby the quality of IT systems and accounting records of the budget institutions vary greatly.

Budget execution reports are accurate, comprehensive and produced in a timely manner. The consolidated annual budget execution report is the basis for the annual financial statements which are prepared on cash basis, using a national methodology which is not IPSAS compliant, but broadly in line with international standards. Within the new FMIS under development (see Chapter 2.4 for details), a unified single chart of accounts and a new GFS 2001 compliant budget classification will be used.

External scrutiny and audit

Indicators PI-26 to PI-28 assess to what extent the arrangements for scrutiny of public finances and follow up by executive are operating.

The new Law on the Court of Accounts (CoA) effective from the 1st of January 2009 provides the basis for further development of external audit in line with the INTOSAI standards. Key changes introduced by the new law are the shift from external financial control to regularity audit, which the CoA has carried out for the first time in 2010 by certifying the 2009 Government financial statements.

The mandate of the CoA consists in carrying out financial audits and performance audits of the State Budget; the social funds; the ATUs; public enterprises and Joint Stock Companies with State majority; and private sector institutions receiving subsidies. Due to the lack of staff, the CoA is not able cover the whole spectrum of activities and shares its tasks with the Financial Control and Revision Service (FCRS) who audits smaller budget institutions, focusing however mainly on ex-post control of budget execution, and on compliance.

The CoA submits its Annual Report to the Parliament that reviews it together with the Report on Budget Execution submitted by the Government and the Budget and Fiscal Policy document and adopts it by Parliament Decision.

D. Donor Practices

Indicators D1 to D3 capture elements of donor practices which impact the performance of country PFM system.

Predictability in budget support is poor. The main factors contributing to this is the contingency of disbursements on the achievement of performance indicators in policy matrices. Reasons for not achieving indicators may be that conditionality is unrealistic, external factors may inhibit achieving conditionality, or the Government did not actually carry out the programme.

As regards project support, donor information on planned disbursements is provided, if at all, on an annual basis only. The main provider of disbursement information is the World Bank and EC that account for most project support.

National procedures for financial management are used by donors in case of direct budgetary support and for loan or grant programmes reflected in the national public budget.

There has been a significant rise in the use of national procedures for financial management due to the significant increase of direct budget support. For project support, donors continue to largely rely on their own procedures, in some cases partly aligned with national procedures.

(ii) Assessment of the impact of PFM weaknesses

Budget architecture

- There are concerns about the realism of the budget calendar and calls for it to be reconsidered. The period under review by this PEFA 2011 experienced considerable disruptions leading to poor adherence to the deadlines and milestones of the budget calendar. It is not clear however whether the poor adherence to the budget calendar is due to systemic problems, warranting an overall revision, or to external factors.
- There have been concerns over the fact that the budget classification has not been fully compliant with international standards set out by GFS 2001 (and COFOG). This is being addressed under the current reform programme (see Chapter 2.4).
- The present allocation process of the inter-governmental fiscal transfers has two steps. Transfers are made by central government to Level 2 ATUs including the fiscal transfers designated for their subordinate Level 1 ATUs. There have been concerns relating to the complexity of this process and calls for a revision that would enable the MoF to make transfers directly to the Level 1 ATUs.

Budget planning and formulation

- There has been considerable improvement in medium term budgeting in recent years. The majority of sector budgets are based on reasonable plans and cost estimates within the aggregate hard budget constraint. This area however should be considered as work in progress. There is still much room to improve detailed processes as well as organisational capacities and skills in the central and local government institutions.
- The OECD produced in 2010 a paper entitled “Budget in Moldova” in which a detailed analysis on budgeting and public financial management in general. The paper discusses the current weakness in systems and process and its findings can be seen in the light of the outcomes of this 2011 PEFA assessment

Revenue collection

- There are weaknesses in tax audit and debt control which require re-organisation of the STS, introduction of modernised business processes and the adoption of a modern computer system.

Budget execution and control

- The highly decentralized payroll system is inefficient. Control is mainly carried out through ex-post inspection; procedures for ex-ante control are missing.
- As regards public procurement, an independent complaints review body is missing, and improvement is needed in achieving value-for-money through a more systematic use of competitive procurement procedures.

Accounting, reporting and auditing

- The financial statements are not presented according to international standards. Information on financial risk and contingent liabilities is missing.
- Coverage of the internal audit function in the public sector is still low since half of the internal audit units are not operational yet, and most auditors still lack experience. Focus is on compliance audit. System audit is in the early stages.

External Audit and Scrutiny

- The Court of Accounts is understaffed and can therefore not cover the whole scope of its activities.
- Capacities of the Members of Parliament in analysing audit reports still need strengthening. In-depth hearings are only rarely used as an instrument of parliamentary supervision.

(iii) Prospects for improvement

Budget architecture

- The impending introduction of the unified Chart of Accounts and budget classification would bring Moldova in line with what is current international practice.

Budget planning and formulation

- A new law for Public Finance and Fiscal Responsibility is currently under elaboration that would replace the current Law on Budgetary System and Budgetary Process (no. 847-XIII of 24 May 1996). The Government has sought advice from the IMF and development partners and it is expected that the new law will be approved by Government before the end of the year.
- The on-going PFM reform programme (also supported by the World Bank, SIDA and the Dutch Government) includes training and skill development, strategic planning, medium-term budget planning, macroeconomic forecasting and introduction of modern costing techniques.

Revenue collection

- From 2012 a new application (Taxpayer Current Account) will improve the handling of arrears and contribute positively to the overall debt management. Within the same period the main business processes will be documented and revised in view of modernisation and automation.

Budget execution and accounting

- The main new features of the new FMIS of the Ministry of Finance are the implementation of a new unified chart of accounts, replacing the current six different charts of accounts, as well as the implementation of a dedicated and automated commitment management system.
- The area of public procurement, legal approximation of EU Directives is underway, and measures have been taken for establishing an independent complaints review body.

Internal audit

- A Twinning Project is providing further capacity building to develop the skills of auditors with regard to system based audit and for developing the PIFC system.

External Audit and Scrutiny

- The increase of the number of staff of the CoA was recently approved by the Parliament.
- CoA and Parliament are supported by the Swedish National Audit Office and by UNDP in further capacity development, in particular in strengthening their cooperation.

1 Introduction

The PEFA 2011 is the third such exercise undertaken in the Republic of Moldova. The preceding assessments took place in 2006 and 2008.

The Government of Moldova has acquired substantial practical experience with the application of the PEFA methodology over the years. In particular, the Ministry of Finance has demonstrated in depth understanding of both the general process of PEFA and the technical elements related to each indicator in the methodology. The MoF coordinated the preparation of a solid self-assessment report well in advance of the deployment of the consulting team. This served as an excellent basis for discussion and for finalising the assessment for PEFA 2011 covering the 2008, 2009 and 2010 fiscal years.

According to the Terms of Reference, the specific objective of PEFA 2011 was to:

- Track the progress since last PEFA assessment needed to measure PFM performance over time, and to inform and strengthen the dialogue between the Government of Moldova and EU, but also the donor community, on strengthening PFM;
- Assist the Government of Moldova and donor community to assess current PFM reforms and to identify potential PFM areas where further institutional support is required;
- Assist the EU and other interested donors in determining the eligibility of Moldova for future budget support and macro-financial assistance programmes.

The scope of the assessment for most of the indicators covers the central government comprised of the State Budget (including special funds and special means, as well as foreign-financed projects), the State Social Insurance Fund (SSIF), and the Compulsory Insurance Funds for Medical Assistance (CIMFA). However, for the indicators PI-7, PI-8, PI-9 and PI-23 the scope of the assessment covers the general government. For internal and external audit as well as for public procurement (PI-19, PI-21 and PI-26) the main focus has been on central government, but some aspects of local government have been considered as well.

The timeline for the assessment before the deployment of the consulting teams was as follows:

- Defining scope, objectives and operational arrangements by DG ECFIN and EUD – February 2011;
- Notification on PEFA exercise – March 2011;
- Ministry of Finance self-assessment group set up – March 2011;
- Drafting of Terms of Reference – March/April 2011;
- Tendering and selection of PEFA evaluators team – May/June 2011;
- GoM self-assessment completion – mid of June 2011.

The first visit of the consultants to Moldova took place from the 18th of July to the 10th of August 2011. A kick-off meeting chaired by Minister of Finance Veaceslav Negruta took place on the 19th of July. Following detailed discussions between the consultants and the officials from the Government, Parliament and Court of Accounts, the draft set of performance indicators was submitted on the 22nd of August. The MoF coordinated the review of the draft performance indicators and provided consolidated comments from all institutions involved in the PEFA during the second week of September.

A second mission took place between the 19th and 30th of September. This served as the validation process in which the relevant officials in the Moldovan institutions and the consultants held final consultations in order to address all pending matters in the performance indicators.

The final report was submitted on the 30th of September. The report received comments from the Commission's services and PEFA Secretariat on the 19th of October and a revised version was produced on the 31st of October.

The Directorate-General for Economic and Financial Affairs and EU Delegation to Moldova have been in touch with the World Bank in Kiev and Moldova on this PEFA exercise. The World Bank provided initial guidance based on the previous two PEFA assessments (2006, 2008) and shared the TORs of these assessments. Other donors were also informed about the planned assessment but due to limited PFM expertise available locally and/or overlaps with the timing of own activities/programmes a full participation in the assessment review was not possible.

DG ECFIN and the EU Delegation were responsible for quality assurance of the assessment. A description of the management and quality assurance process for the assessment is provided in Appendix 4.

The main body of the final report is structured as follows:

Chapter 2 provides relevant country background and contextual information. It is divided in four sections covering the socio-economic situation, the legal and institutional framework supporting public financial management, an overview of the overall budgetary and fiscal situation in the last years, and the current public financial management reform agenda of the Government of Moldova.

Chapter 3 provides the detailed analysis of the 31 performance indicators. An executive summary of this information is provided in the preceding *Summary Assessment*.

Appendix 1 summarises the information regarding the change in performance between the PEFA 2008 and 2011 assessments in each indicator.

The officials and documentation consulted during this assessment is presented in Appendices 2 and 3 respectively.

2 Country Background Information

The purpose of this section is to offer the broader socio-economic context and put this PEFA assessment into perspective regarding the overall process of growth and development in Moldova.

Moldova gained independence in 1991 following the dissolution of the Soviet Union. After a protracted period of severe economic decline that engulfed most former Soviet Union states, the Moldovan economy started growing again in 1998 and showed stable positive trend up until 2009. In spite of a decade of growth Moldova's per capita GDP of USD 1600 and poverty rate of 26.3% ranks it still amongst the lower income former Soviet Union countries.

2.1 Socio-Economic Situation

Moldova's population has actually decreased since independence. The decrease in population was due primarily to low birth rates and high labour migration. However, remittances from labour migrants have come to play an important role in the social and economic life of Moldova. The share of remittances exceeded 30% of GDP[1] which put Moldova at the top of this category in the world prior to the eruption of the global economic crisis.

A steady decade of economic growth enabled considerable fiscal expansion and increased social spending. Increased spending in healthcare had a part in the reduction of infant mortality that deteriorated sharply after the collapsed of the Soviet Union and in keeping life expectancy relatively high. Table 1 below provides a summary of basic demographic and social indicators that illustrate how things have evolved for Moldova in recent years.

Table 1: Demographic and social indicators 1998 to 2010

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (millions)	3.656	3.650	3.644	3.635	3.628	3.618	3.607	3.600	3.590	3.581	3.572	3.567	3.563
Birth rate (per 1,000)	11.3	10.6	10.2	10.0	9.9	10.1	10.6	10.5	10.5	10.6	10.9	11.4	11.4
Crude death rate (per 1,000)	10.9	11.3	11.3	11.0	11.6	11.9	11.6	12.4	12.0	12.0	11.8	11.8	12.3
Natural increase (per 1,000)	0.4	-0.7	-1.1	-1.0	-1.7	-1.8	-1.7	-1.9	-1.5	-1.4	-0.9	-0.4	-0.9
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	13.8	13.5	13.1	11.6
Male life expectancy	64.0	63.7	63.9	64.5	64.4	64.5	64.5	63.8	64.6	65.0	65.6	65.3	
Female life expectancy	71.4	71.0	71.2	71.7	71.7	71.6	72.2	71.7	72.2	72.6	73.2	73.4	

Source: Statistical Yearbook of the Republic of Moldova, Moldova Economic Trends N 1(Q1) 2011, Socio-Economic Development of Moldova in 2010, National Development Strategy and HDR 2007/8/

Real GDP growth that ranged at 6.4% on average during 2001-2008 was interrupted in 2009 by the global economic crisis. Economic growth until 2009 relied heavily on high remittances and increasing FDI and credits. This was a mixed blessing as it left Moldova vulnerable to external shocks. In addition, the increasing capital inflow contributed to the widening of the current account deficit and to relatively high inflation.

The global economic crisis affected severely the flow of remittances and FDI that led to a 6.0% GDP contraction in 2009 and a decrease in domestic demand. Decreased domestic demand in its turn led to lower inflation and imports (imports of goods decreased by 33% while exports of goods decrease only by 19% in 2009) that reduced the current account deficit to 8.5% of GDP in 2009 from 16.3% in 2008. Also in 2009 the end of period inflation was the lowest recorded since independence at 0.4% compared to 7.3% in 2008.

Economic recovery started in late 2009 and continued during 2010. Industrial production picked up

[1] Moldova Economic Trends N 1(Q1) 2011

and exports grew aided also by the removal of trade barriers imposed by Russia on Moldovan wine in 2007. GDP grew by 6.9% in 2010 and inflation rose to 7.4% on an annual average because of increasing domestic demand and increased energy tariffs. Growth was mainly driven by non-tradables and the service sector. Agriculture, industry and construction contributed a mere 0.6, 1.1 and 0.6 percentage points respectively to the overall 6.9% 2010 GDP growth[2].

Although exports increased faster than imports in 2010, the trade balance widened further because in absolute terms the share of imports in Moldova's external trade is much larger than imports. In addition, relatively low remittances, as compared to trends in earlier years, contributed to the widening of the current account deficit to 10.2% of GDP.

Overall, external trade has grown during the past five years with the exception of 2009. In 2010 the volume of trade had reached USD 5.4 billion, which was approximately USD 2 billion more than in 2005. This is largely due to an increase in imports which grew on average by 14.3%, while the annual average growth of export of was 9%.

Russia is the main trade partner of Moldova with 25% in total external trade, and leaving the second place to Romania with 14%. Agricultural and food products comprise around half of Moldovan exports. The other important exports are textile products (20%), industrial products (13%) and chemical products (7%).

Economic recovery continued during the first half of 2011 showing remarkable 7.5% year-on-year GDP growth during the first quarter. Overall it is expected that in 2011 and 2012 annual GDP growth will not be less than 4.5%. The average projected inflation for 2011 is 8%, while the current account deficit is expected to widen further to 11.75% of GDP. Table 2 provides a summary of economic indicators.

Table 2: Economic indicators 1999 to 2010

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP Lei million, of which	12,322	16,020	19,052	22,556	27,619	32,032	37,652	44,754	53,430	62,922	60,430	71,849
Agriculture %	24.9	25.4	22.4	21.0	18.3	17.6	16.4	14.5	9,9	8,8	8.5	11,9
Industry %	17	16.3	18.7	17.3	17.6	17,0	15.8	14.7	14,8	13.9	13,3	13,3
Construction %	3.3	2.7	3.1	3,0	2.9	3.4	3.3	4.0	4.8	5.0	3.5	3,3
Trade %	15.3	12.5	12.0	11,1	10,8	10.6	10.4	11.5	12,0	12,5	13.2	12,9
Transport %	8.2	9,6	10.4	10.0	10.8	11.8	12.2	11.8	12,1	12,0	11,9	11,4
GDP lei per capita	3,379	4,402	5,247	6,227	7,643	8,890	10,475	12,483	14,937	17,625	16,839	20,160
GDP $ per capita	321	354	407	458	548	720	830	952	1,232	1,694	1,524	1,630
Real GDP Growth		2.1	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.9	-6.0	6.9
Consumer Price Inflation (An Av %)	39.3	31.2	9.6	5,2	11.6	12.4	11.9	12.7	12.3	12.7	0.0	7.4
Export of Goods ($m)	463,4	472	566	644	790	985	1,091	1,052	1,342	1,591	1,283	1,542
Import of Goods ($m)	586,4	776	892	1,038	1,402	1,769	2.292	2,693	3,690	4,899	3.278	3,855
Trade Balance ($m)	-123	-304	-326	-394	-612	-784	-1,201	-1,641	-2,348	-3,308	-1,991	-2,313
Current Account Balance ($m)		-98	-27	-20	-130	-46	-226	-386	-671	-979	-465	-483
Foreign Exchange Reserves excl. Gold ($m)		222	228	268	302	470	597	775	1,334	1,672	1,480	1,718
Foreign Exchange Reserves, (months of imports)	2,7	-2,7	2.5	2.5	2.1	2.7	2.6	3.0	3.7	-3,5	-4,5	-4,5
Total External debt ($m)		1,740	1,675	1,819	1,931	1,884	2,079	2,489	3,318	4,079	4,359	4,786
Debt service, (% of exports)		20.9	17.0	10.4	8.4	10.7	16.5	18.7	11.6	14.9	19.9	18.4

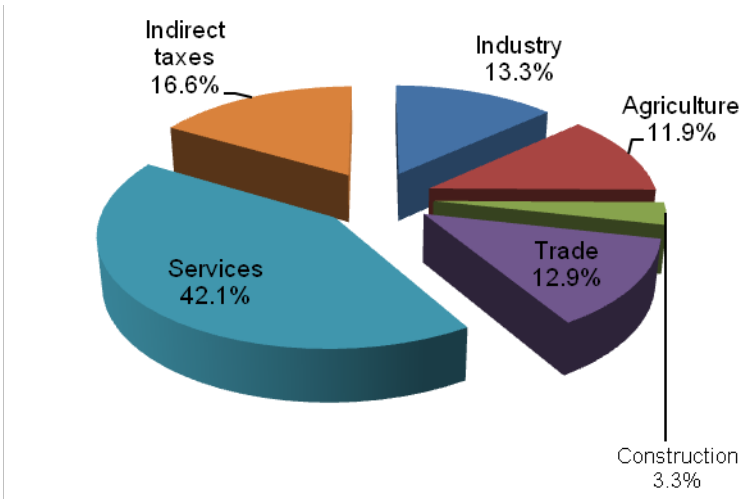
[2] National Bureau of Statistics – http://www.statistica.md/newsview.php?l=ro&id=3287&idc=168

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exchange rate, Lei/$ (annual average)	10.5	12.4	12.9	13.6	13.9	12.3	12.6	13.1	12.1	10.4	11.1	12.4

Source: National Bureau of Statistics - http://www.statistica.md/newsview.php?l=ro&id=3287&idc=168 and National Bank of Moldova - http://www.bnm.md/md/payment_balance_comments/2010

The Moldovan economy depends greatly on the services sector as can be seen in Diagram 1 below. The services sector share of GDP has been 57% on average between 2005 and 2010. The share of agriculture has varied from almost 16.7% in 2005 to 8.5% in 2009. The share of agriculture grew again in 2010 to 12% also because of increasing government spending in this sector, as can also be seen by this PEFA assessment (see PI-1 and PI-2).

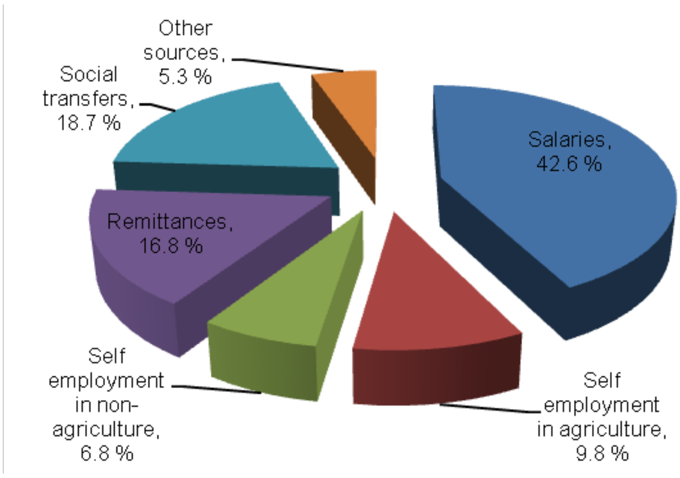
Diagram 1: GDP structure in 2010



Source: Moldova Economic Trends N 1(Q1) 2011

Average monthly wages more than doubled in 2008 compared to 2005 and have been relatively stable during the last three years at the level of USD 245 on average. Except for the crisis year of 2009, per capita nominal disposable income increased steadily and is currently at USD 110, in which remittances make up 16.8% and salaries 42%. The official unemployment rate increased from 4% in 2008 to 6.4% in 2009 and 7.4% in 2010. The structure of household disposable income is depicted in Diagram 2.

Diagram 2: Structure of total disposable income of households in 2010



Source: Moldova Economic Trends N 1(Q1) 2011

After reaching from the dramatic level of 70% in 2000, poverty stabilised at the level of approximately

26% since 2007. The available data for 2009 show, at first reading, that the economic crisis may not have had a severe impact on poverty. This however cannot be conclusive as the real impact of the crisis on poverty may take longer to manifest itself. Remittances have been one of the most important elements that contributed to poverty reduction since independence. Also from 2009 the Government launched a poverty targeted social transfers' scheme that further contributed to bringing down the extreme poverty to 2.1% in 2009 (see Table 3).

Table 3: Poverty Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Absolute Poverty												
Rate	52.0	73.0	67.8	54.6	40.4	29.0	26.5	29.1	30.2	25.8	26.4	26.3
Gap	19.5	32.3	27.0	19.3	12.4	7.3	6.8	8.0	7.9	5.9	6.4	5.9
Severity	9.8	17.7	13.7	9.1	5.2	2.7	2.5	3.2	3.0	2.1	2.3	2.0
Extreme Poverty												
Rate	37.4	59.7	52.2	38.0	26.2	15.0	14.7	16.1	4.5	2.8	3.2	2.1
Gap	12.4	22.7	17.6	11.6	6.6	3.1	3.2	4.0	1.0	0.5	0.5	0.4
Severity	5.9	11.4	8.2	5.1	2.4	1.0	1.1	1.5	0.4	0.2	0.1	0.1
Gini coefficient by consumption expenditures per capita (weighted)			39	39	37	36	36	38	37	33	32	30

Source: Moldova Economic Trends, Report on the Evaluation of the National Development Strategy 2009-2010

Table 4 below 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). Moldova falls in the Medium Human Development category (0.5 to 0.799) and is ranked 99 out of 177 countries.

Table 4: Human Development Index

	1990	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Moldova	0.616	0.525	0.606	0.613	0.616	0.622	0.620	0.623
Europe and Central Asia	0.644	0.668	0.696	0.702	0.709	0.714	0.713	0.717
World	0.526	0.570	0.598	0.604	0.611	0.615	0.619	0.624

Source: UNDP Human Development Report 2010

2.2 Legal and Institutional framework for PFM

The Constitution of 1994 provides for a single-chamber parliament of 101 members, a President elected by the parliament, and an independent judiciary. The members of parliament are elected every four years from party lists on the basis of proportional representation. The government is formed by the Prime Minister, the Deputy Prime Ministers and the ministers (currently there are 19 members of government). The Prime Minister and the government are nominated by the President after consultation with the parliamentary majority. The nomination of the government needs the approval of the parliament.

The court system includes district courts, regional Courts of Appeal and a Supreme Court of Justice. Administrative courts adjudicate on issues of human rights, and the Court of Accounts oversees the administration of public funds. There is a Constitutional Court that enjoys sole authority over constitutional issues, including referendums and the legitimacy of laws and secondary legislation.

Public finances in Moldova cover the Central Government, the Administrative Territorial Units (ATUs), the Compulsory Insurance Funds for Medical Assistance (CIFMA) and the State Social Insurance Fund (SSIF).

The central government sector consists of 50 Central Public Authorities which are: the Parliament, the

Presidency, the Court of Accounts, the State Chancellery, the Constitutional Court, the Superior Council of Magistracy, the Supreme Court of Justice, 16 ministries and 28 other central public institutions[3]. The local government sector consists of 35 ATUs of Level 2 (32 *rayons*[4]*;* the municipalities of Chişinău and Bălţi; and the Autonomous Republic of Gagauzia) and 896 ATUs of Level 1 (*primarie*[5]).There is a lowest tier of tertiary budget beneficiaries, i.e. spending units at the lowest level, consisting of primary schools, kindergartens, cultural institutions and libraries, which are subordinated either to a *rayon* or a *primaria.* In total, there are about 2,800 public authorities (850 beneficiaries of the State budget, the *rayons,* the *primarie* and 1,018 local service delivery units). The ATUs are responsible for financing the primary and secondary education system and some social assistance services, but not the health services which are funded by the CIFMA. Moreover, the ATUs are responsible for construction and maintenance of local infrastructure and transport.

The relevant legal framework for PFM is provided by the Law on Budgetary System and Budgetary Process (no.847-XIII of the 24th of May 1996 and amended subsequently several times), which provides the framework for budget preparation and execution in Moldova.

The preparation of the MTEF is regulated by Government Decision no. 82 of the 24th of January 2006 ("On drafting the Medium Term Expenditures Framework and Draft Budget") which institutes a Coordinating Group for drafting the MTEF, regulates its activities and includes an Action Plan for drafting the MTEF.

The institutions involved in the State Budget preparation process are the Department for Budgetary Synthesis in the MoF, responsible for the coordination of the preparation of the National Budget; and the Sectoral Finance Departments[6] in the MoF for the main sectors covered in the MTEF, which together with the Department for Budgetary Synthesis prepare the MTEFs and review the budget proposals and the financing plans in their respective sectors. The MTEF preparation is carried out by the MoF with input from line ministries and under supervision of the Coordinating Group for Drafting the MTEF.

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 (November 1997, as amended), Law on Public System of Social Insurance (July 1999) and Law on Mandatory Health Insurance (February 1998), Law regarding the rate, method and terms for payment of the obligatory medical insurance contribution (December 2002), Contravention Code (October 2008), Criminal Code (approved by the Laws no. 985-XV DIN 18.04.2001), Law on Administrative Procedures (February 2000), Supreme Court of Justice Decision regarding the practice of examining disputes related to enforcement of the customs legislation in administrative proceedings (December 2010).

Tax revenue is collected through two main separate services – State Tax Service and Customs Service. In addition, the recently liberalised profession of Judiciary Executors/Bailiff Service, previously organised as a department of the Ministry of Justice, is responsible for collecting of tax and non-tax public revenues, including forced sale of property, based on court decisions.

Further elements of PFM legislation are: the Law on Local Public Finances (No. 397-XV of the 16th of October 2003, with amendments); the Law on Public Debt, State Guarantees and on-Lending from State Borrowing (No. 419-XVI from 2006); the Law on Public Procurement (No. 96-XVI from the 13th of April 2007); the Law on Accounting (No. 113-XVI of the 27th of April 2007); the budget classification approved by the Ministry of Finance, Decree No. 91/2008; the annual State Budget Laws; the annual Social Security Budget Law; the annual laws on Funds for Mandatory Health Insurance.

The main institution managing the budget execution process is the State Treasury established as an independent agency under the MoF, which is responsible for record keeping; administration of the Treasury Single Account; expenditure payment and control; forecasting and cash management; reporting and regulating the accounting methodology. The State Treasury has a decentralised

[3] Agencies such as the National Statistics Bureau, the Cadastre, Land Relations Agency, etc.
[4] District
[5] Mayoralties (town and settlements)
[6] These are: (i) the Dept. for financing of education, culture & science;,(ii) the Dept. for financing of health and social protection; (iii) the Dept. for financing of public administration; (iv) the Dept. for analysis and monitoring of salary expenditure; (v) Dept. for financing of public order, the State defence and security; (iv) the Dept. for financing of national economy, capital expenditure and public procurement.

structure with 38 Territorial Treasuries in all Level-2 ATUs. The other relevant institution involved in budget execution is the National Bank of Moldova (NBM), where the Treasury Single Account is held and which ultimately executes the payment operations.

The Public Debt Department in the MoF is responsible for management and reporting of the State debt.

The Public Procurement Agency, an independent agency under the MoF, is responsible for regulation, supervision, control and inter-institutional coordination in the area of public procurement.

The control function in Moldova has historically been carried out by the Court of Accounts (CoA) and by the Financial Control and Revision Service (FCRS) which is a central agency under the MoF As a matter of fact, activities were divided between the CoA who controlled ministries and Level-2 ATUs, whereas the FRCS controlled agencies and Level-1 ATUs. In April 2006, the CoA approved its Strategic Development Plan for April 2006 to December 2010. From 2006 to 2009, the CoA has been gradually transformed from an external control institution into a Supreme Audit Institution, as this was a condition in the EU Policy Matrix. The new legal basis was established in 2009 by the new Law on Court of Accounts (5th of December 2008), which was developed with support of the Swedish National Audit Office, providing a basis for further development of external audit in line with the INTOSAI standards. Key changes introduced by the new law are the shift from external financial control to regularity audit, which will be carried out for the first time in 2010 by certifying the 2009 Government financial statements.

The Central Harmonization function for internal audit and financial management and control was moved from the FCRS to the MoF in 2008, and the Division for Harmonisation of the PIFC System in the MoF was established as CHU. The new Law on Public Internal Financial Control (No. 229 of the 23rd of September 2010) will enter in force on the 26th of November 2011.

The two bodies responsible for donor coordination and for the management of donor funds are:

- The European Integration, International Relations & Protocol Department in the MoF, whose responsibilities also include EU funds and negotiation of the EU Moldova-Association Agreement;
- The Department for Policies, Strategic Planning and External Assistance in the State Chancellery which is in charge of coordination of external assistance and responsible for strategic planning.

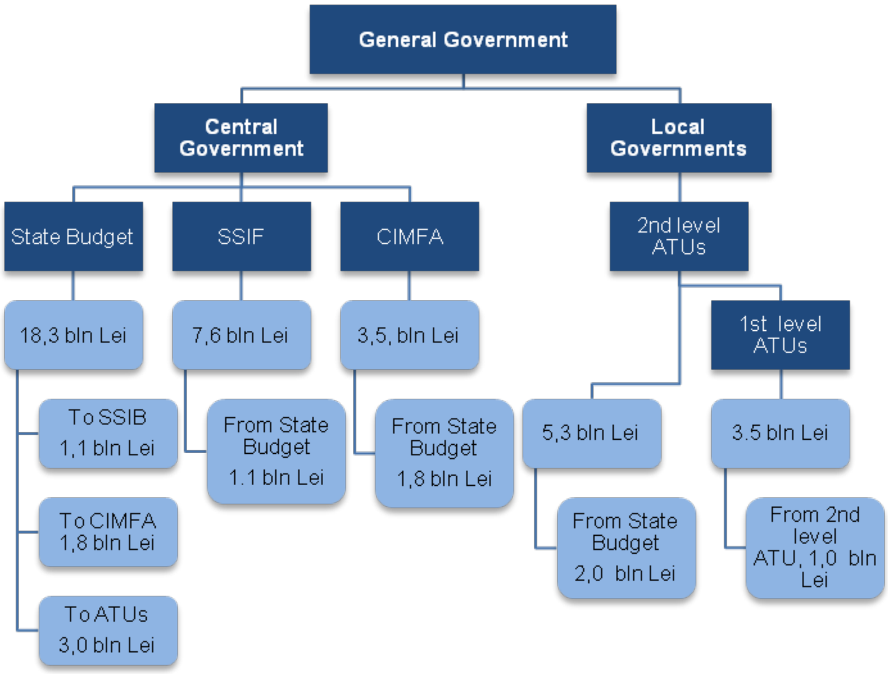
2.3 Budgetary and Fiscal position

The general government sector in Moldova consists of all government units and institutions which are controlled and primarily financed by government units[7]. The general government is defined as comprising the central government and local governments. The central government includes the State Budget (including special funds and special means, as well as foreign-financed projects), the State Social Insurance Fund (SSIF), and the Compulsory Insurance Funds for Medical Assistance (CIMFA) Budget.

The local government budgets include special funds and special means, as well as foreign-financed projects. There are two levels of local government in Moldova: the 1st level ATUs include *primarie* (i.e. cities and villages) and the 2nd level ATUs comprise of *rayons*, Chisinau municipality and the Autonomous Territorial Unit of Gagauzia. Diagram 3 below illustrates the structure of general government in Moldova together with the aggregate appropriations for the 2009 fiscal year.

[7] In line with Government Finance Statistics (GFS), chapter C.2.28

Diagram 3: Structure of the General Government with 2009 appropriations (in billion Lei)

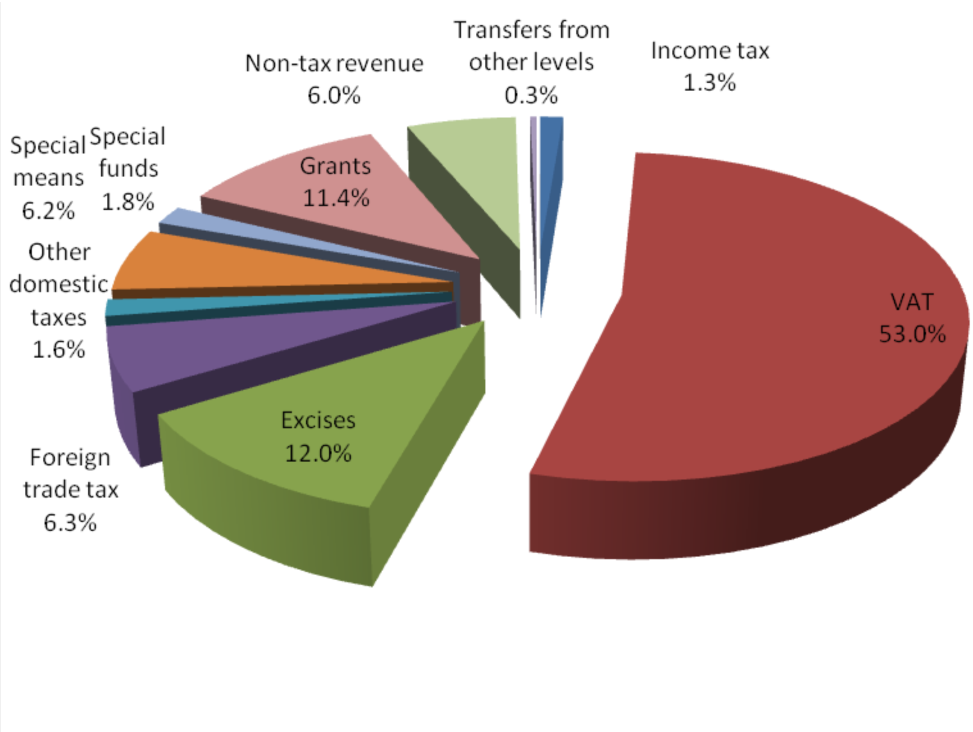


General government spending represents around 45% of GDP, while the State Budget makes up 28% of the GDP. The social fund and health fund budgets are approximately 13% and 5% of GDP including transfers from the State Budget that in 2009 accounted for 15% of SSIF and 50% of CIFMA Budget.

Budgets of ATUs, both 1st and 2nd level, represent approximately 11% of GDP. In 2009, approximately 35% of this amount was planned to be financed by the horizontal fiscal transfers of the State Budget.

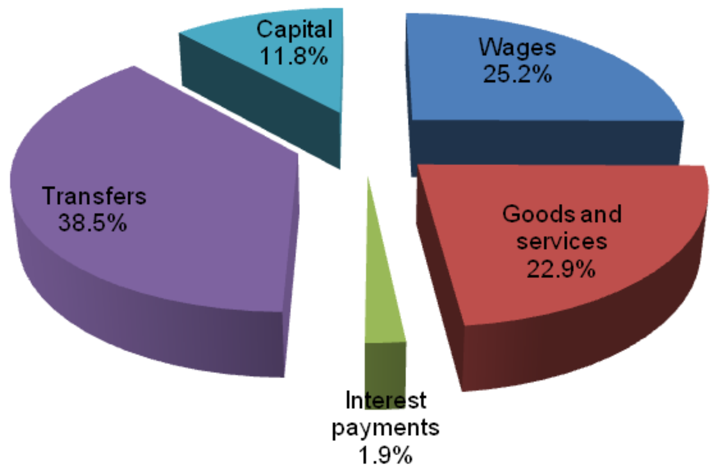
The main source of revenue for the State Budget has been the VAT with excises and foreign trade taxes at second and third place. Overall indirect taxes generate more than 70% of current revenue as can be seen in the Diagram below.

Diagram 4: Structure of the 2010 State Budget revenue (% of total revenue)



On the expenditure side, current spending makes up for 88% of total expenditure, transfers being the largest item and leaving public sector wages in second place.

Diagram 5: Structure of the 2010 State Budget expenditure (% of total expenditure)[8]



The functional breakdown of the budget expenditure is presented in Table 5. Approximately 40% of the budget is spent on the broad social sectors (social protection, health and education) with agriculture in second place with around 5% share in total expenditure. Expenditure on servicing public debt constitutes broadly 4% of total expenditure. It should be noted that there is large expenditure group identified as "Activities and services not classified elsewhere" that ranges between 20 and 22% of total expenditure. This is mainly due to the fact that it includes the fiscal transfers from the State Budget to the ATUs (see also PI-2).

Table 5: Functional breakdown of the State Budget expenditure for 2008, 2009 and 2010

Groups of functional classification[9]		2008	% of total	2009	% of total	2010	% of total
01	General public services	1,017.4	6.8	1,188.2	6.5	1,030.9	5.3
02	Foreign affairs	267.4	1.8	261.9	1.4	216.6	1.1
03	National defence	279.4	1.9	276.7	1.5	226.9	1.2
04	Judicial system	293.2	2.0	324.3	1.8	318.9	1.6
05	Public order & safety	984.9	6.6	1,365.6	7.5	1,033.4	5.3
06	Education	1,580.8	10.6	1,875.3	10.2	1,898.1	9.8
07	Science & innovation	393.6	2.6	511.0	2.8	341.7	1.8
08	Culture, sports & youth	250.6	1.7	299.6	1.6	217.9	1.1
09	Health	2,083.3	14.0	2,676.5	14.6	2,486.4	12.8
10	Social insurance and social protection	1,963.1	13.2	2,283.8	12.5	3,517.5	18.1
11	Agriculture, forestry, fishing & water	776.3	5.2	866.4	4.7	773.2	4.0
12	Environment & hydrometeorology	110.1	0.7	109.5	0.6	201.0	1.0
13	Industry & construction	25.3	0.2	28.1	0.2	18.4	0.1
14	Transport, roads & communication	661.0	4.4	959.9	5.2	1,227.5	6.3
15	Housing & community amenities	258.6	1.7	417.7	2.3	281.3	1.4
16	Fuel & energy	172.0	1.2	74.9	0.4	136.9	0.7
17	Public debt service	652.7	4.4	782.5	4.3	791.3	4.1
18	Reserve fund	49.1	0.3	60.1	0.3	53.6	0.3
19	Other economic affairs	162.6	1.1	151.9	0.8	332.7	1.7
20	Activities & services n.e.c	2,966.0	19.9	3,854.2	21.1	4,434.1	22.8
23	Net lending	-66.0	-0.4	-59.5	-0.3	-83.8	-0.4
	Total	14,881.4	100.0	18,308.6	100.0	19,454.5	100.0

[8] Net lending has been -0.3%

[9] Note that this table covers the functional classification of the State Budget as it is approved, without grouping certain items as it is done for the PEFA analysis in PI-1 and PI-2 and without the expenditure of SSIF and CIMFA.

Source: Laws on State Budgets 2008, 2009 and 2010

The table below describes the functional breakdown of the State budget expenditure for years covered by this PEFA assessment.

The section that follows presents the basic fiscal and budget data for the period under review in the 2011 PEFA. Table 6 borrows the figures presented in the July 2011 IMF country report and discusses a few important elements.

Table 6: General government budget 2007-2010

	2007		2008		2009		2010	
	Mln Lei	% of GDP	Mln Lei	% of GDP	Mln Lei	% of GDP	Mln Lei	% of GDP
Total revenue and grants	22,292	41.8	25,517	40.6	23,506	38.9	27,540	38.3
Revenue (exl. Grants)	19,798	37.1	24,449	38.9	22,218	36.8	25,540	35.5
Tax revenue	18,171	34.1	21,030	33.4	19,325	32.0	22,261	31.0
Profit tax	1,388	2.6	718	1.1	443	0.7	484	0.7
Income tax	1,329	2.5	1,480	2.4	1,465	2.4	1,545	2.1
VAT	7,587	14.2	9,097	14.5	7,596	12.6	9,146	12.7
Excises	1,392	2.6	1,574	2.5	1,540	2.5	2,074	2.9
Foreign trade tax	900	1.7	1,150	1.8	905	1.5	1,080	1.5
Other	368	0.7	424	0.7	414	0.7	459	0.6
Social fund contributions	4,366	8.2	5,430	8.6	5,587	9.2	5,985	8.3
Health Fund contributions	841	1.6	1,157	1.8	1,377	2.3	1,487	2.1
Non-tax revenue	1,628	3.1	1,575	2.5	1,035	1.7	1,697	2.4
Revenue of special funds	1,524	2.9	1,844	2.9	1,858	3.1	1,583	2.2
Grants	970	1.8	1,068	1.7	1,288	2.1	2,000	2.8
Budget support	5	0.0	716	1.1	804	1.3	1,416	2.0
Projects	965	1.8	352	0.6	334	0.6	584	0.8
Total expenditure	22,416	42.0	26,147	41.6	27,343	45.2	29,326	40.8
Current expenditure	18,467	34.6	21,693	34.5	24,367	40.3	25,986	36.2
Wages	4,876	9.1	5,730	9.1	7,000	11.6	7,317	10.2
Goods and services	4,872	9.0	5,838	9.3	6,067	10.0	6,735	9.4
Interest payments	619	1.2	733	1.2	843	1.4	558	0.8
Transfers	8,191	15.4	8,875	14.1	10,156	16.8	11,082	15.4
Other	0	0.0	517	0.8	302	0.5	295	0.4
Net lending	-83	-0.2	36	0.1	-28	0.0	-90	-0.1
Capital expenditure	4,031	7.6	4,419	7.0	3,004	5.0	3,431	4.8
Overall balance (cash)	-124	-0.2	-630	-1.0	-3,837	-6.3	-1,786	-2.5
Domestic financing	-32	0.0	596	-0.9	1,607	2.9	-274	-0.6
Foreign financing	156	0.3	34	-0.1	2,230	3.4	2,060	-2.9

Source: *IMF Country Reports No. 08/320, September 2008 and No. 11/200, July 2011*

Moldova has been quite prudent with its fiscal policy, which is also reflected in this 2011 PEFA assessment (see PIs 1 to 3). There have been concerns over the relative size of the education sector and the need to improve and rationalise overall public spending, but on the whole Moldova has avoided excesses and has managed to stay on a fiscally sustainable path.

The period under review by this PEFA 2011 was marked by the global economic crisis which interrupted several consecutive years of high growth (see section 2.1) and impacted on public finances.

In 2008, driven by a high growth rate, revenue collection was strong which encouraged the Government to increase overall spending. The overall fiscal deficit widened to 1% of GDP compared to 0.2% in 2007 and a surplus of 0.3% in 2006.The main increase was of a transient nature involving non-discretionary current expenditure linked mostly to the procurement of goods and services. Public sector wages remained broadly at the level of 2007. The Government was prudent not to increase expenditure in a way that would constitute an unsustainable fiscal expansion. This prudent practice of the past would prove an important element in managing effectively the fiscal impact of the 2009 global economic crisis.

The global economic crisis disrupted the Moldovan fiscal position during 2009 but the Government was able to combine fiscal adjustment actions without cutting investment expenditure and core social expenditure. The 2009 revenue target was missed by more than 20% but expenditure was cut by less than 10% with public sector wages, pensions and social assistance transfers to protect the poorest layers of the society actually increasing. Although much of the increased spending may be attributed to 2009 being a pre-election year, there is no doubt that it added a counter-cyclical element to the abrupt contraction of GDP by 6% in 2009. Domestic sources of budget financing have been strained leading to an accumulation of in-year expenditure arrears requiring an urgent mobilisation of resources from foreign sources, including extra-ordinary assistance by EU (Macro-Financial Assistance programme) and the IMF (Extended Credit Facility/Stand-by Agreement). The fiscal deficit for 2009 was recorded at 6.3% of GDP.

In late 2009 the Government adopted a fiscal consolidation plan with the IMF and focused on rationalising the wages and spending on goods and services as well as on improving targeting of social assistance schemes.

Economic recovery had an immediate positive impact on revenue collection already at the end of 2009. In 2010 the more than projected revenue collection did not lead to proportionate increase in overall spending even though social transfers increased by 50%. Government decided to use additional revenue to clear the arrears accumulated during 2009. As a result, the fiscal deficit decreased to 2.5% of GDP.

It should be noted, that until 2008 the Moldovan general budget was running a *revenue surplus* (i.e. a positive balance of revenue excluding grants and current expenditure). This means that the Government was in a position to use foreign grants (including budget support) to finance the capital budget for the promotion of growth and development. The fiscal impact of 2009 economic crisis and the shortfall on tax revenue created a revenue deficit 2 billion Lei in 2009 (or 3.2% of GDP). The rebound in the economy and tax collection improved the situation with the revenue deficit being 0.4 billion Lei in 2010 (0.4% of GDP). What this means in terms of donor funded development assistance, is that foreign grants and direct budget support have become increasingly important for fiscal management during the crisis and in the years of its aftermath. When foreign grants are planned to finance part of the current and non-discretionary expenditure of the Government predictability of budget support grants may be of critical importance. Regrettably as can be seen by the assessment of D-1 performance indicator, predictability of budget supported was very poor for Moldova.

During the first half of 2011 fiscal consolidation continued and revenue performance remained strong. It is projected that general government tax revenue collection will be almost at the same level as in 2010 at 37.8% of GDP, while total expenditure will be slightly lower at 39.7% of GDP compared to 40.8% in 2010. This will bring the fiscal deficit down to 1.9% in 2011 from 2.5% of GDP in 2010.

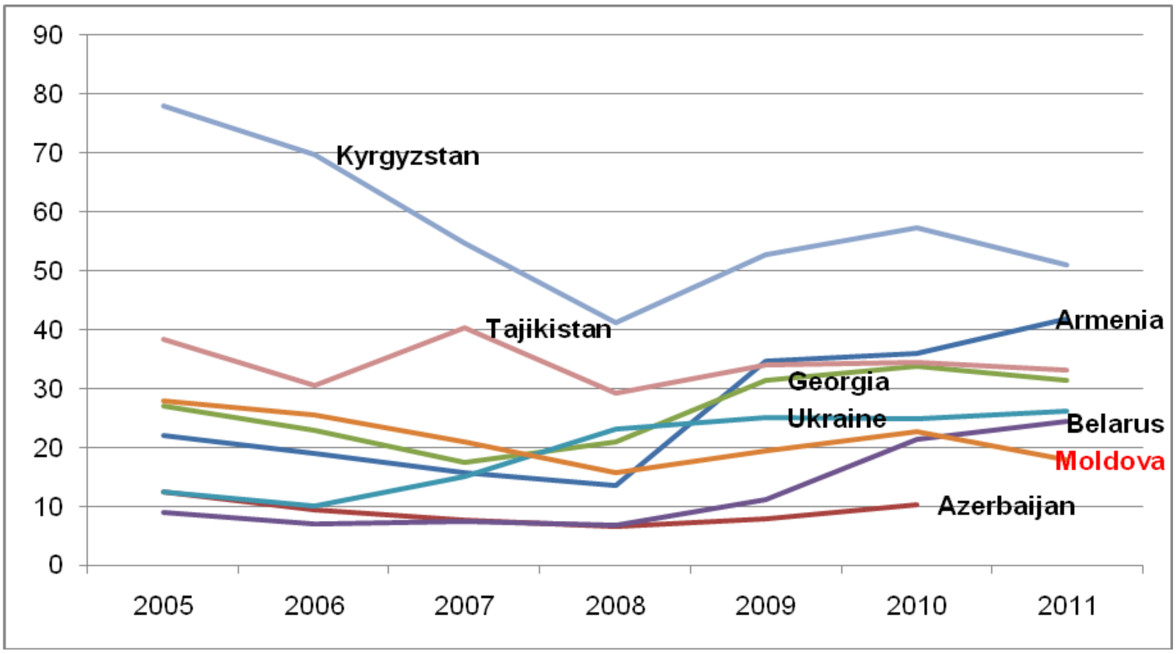
According to the annual report produced by the General Public Debt Division of the MoF[10], public and publicly guaranteed debt increased from 14.1 billion Lei (22.4% of GDP) in 2008 to 17.6 billion Lei in 2009 (29.1% of GDP) and 22.9 billion Lei in 2010 (31.9% of GDP). Out of this the general government debt has been 11.7 billion Lei in 2008 (18.7%GDP) 14.7 billion Lei in 2009 (24.4% of GDP) and 18.9 billion Lei in 2010 (26.4% of GDP).

Moldovan public external debt management has been remarkable during the last four years including the crisis year of 2009 as can be seen in Diagram 6. It was as low as 15.8% of GDP in 2008 and increased to only 19.5% of GDP in 2009 and 22.8% in 2010. It is projected to be at around 17.9% in 2011.

Unlike some other former soviet countries Moldova's public external debt did not increase sharply due to the economic crisis. Moldovan public external debt is currently one of the lowest among peer countries and has been stable in the 6 last years as can be seen by Diagram 6.

[10] http://www.mf.gov.md/ro/publicdebt/debt/reports/

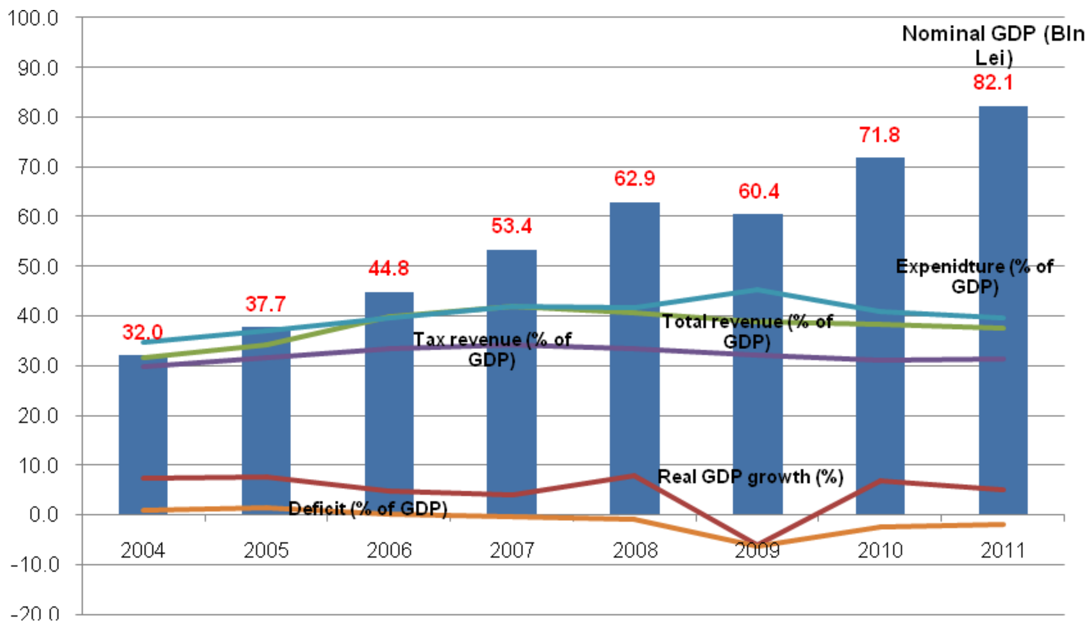
Diagram 6: Moldova and selected former soviet countries: public external debt (% of GDP)



Source: IMF country reports for selected countries from 2006 to 2011

In conclusion, Diagram 7 presents the general overview of macroeconomic and fiscal trends over the period of 2004-2011 and portrays budgetary and fiscal management alongside the broader context of the performance of the economy of Moldova.

Diagram 7: Key Macroeconomic and fiscal trends, 2004-2011



Source: IMF country reports from 2006 to 2011

3 Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

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

	Score (scoring method M1)	B
Dimension	**Minimum requirements**	
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure.	B

The analysis covers the Moldovan *Central Government Budget*[11], which includes data on the total appropriation and actual expenditure of its three main components:

- State Budget without debt service payments and donor funded project expenditures;
- SSIF – State Social Insurance Fund excluding transfers from the State Budget, and;
- CIFMA – Compulsory Insurance Funds for Medical Assistance excluding transfers from the State Budget.

The table below shows the aggregate expenditure outturn compared to the original appropriations for the years 2008, 2009 and 2010.

Table 7: Central Government Budget expenditure out-turn compared to original appropriation *(in million Lei)*

Year	Original Budget Appropriation	Actual expenditure	Deviation (+/-)	Deviation (%)
2008	19,572.0	21,505.3	1,933.0	9.9
2009	24,295.7	22,840.0	-1,455.7	6.0
2010	24,496.4	24,877.6	381.2	1.6

Source: Annual budget Laws 2008, 2009 & 2010; Laws on SSIF and CIFMA 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

The data reveals higher than planned spending in 2008 and 2010. This was due to the higher than expected economic growth in 2008 and faster than expected recovery despite the economic in 2010. In both years this resulted in higher than planned revenue collection. In 2009, the lower than planned spending was indeed the adverse impact of the economic crisis on the Moldovan economy, which resulted in substantially lower than planned revenue collection (see PI-3).

Additional spending in 2008 was allocated to sectors (see PI-2) presumably based on policy priorities. The sectors that gained the most from additional allocations were Agriculture (57.4% increase) and Transport (78.8% increase), while actual expenditure on the Healthcare sector was marginally less than planned by 0.5%. There have been two in-year budget amendments to the State Budget Law dated 3rd of July and 19th of December 2008, which authorised the increased appropriations in the aforementioned sectors. The fact that there was a budget amendment at the very end of the fiscal year with additional allocations being made post factum suggests that there was actual sectoral spending beyond the original appropriations and revised planning needed to receive legal authority before the expiry of the fiscal year.

In 2009 all large sectors with the exception of Agriculture had to settle for less than planned expenditure. There has been one in-year amendment to the State Budget Law and two amendments

[11] NB: In Moldova, the *general government budget* in GFS terms is *National Public Budget* that, according to the Law no. 847-XIII of 24 May 1996 on Budgetary System and Budgetary Process consists of the State Budget, the State Social Insurance Fund (SSIF), the Compulsory Insurance Funds for Medical Assistance (CIFMA), and the Administrative-Territorial Unit (ATU) budgets (which in turn consist of the budgets of the ATU of level 2 (*rayons*, Chisinau municipality and the Autonomous Teritorial Unit of Gagauzia) and level 1 (*primarie*, i.e. cities and villages).

to the SSIF Law. The revision was severe and made at the end of the fiscal year on the 3rd of December 2009 authorising the sequestrations needed on account of the lower than planned revenue collection.

In 2010 the excess spending has been only 1.6% compared to the originally approved budget. As in the case of 2008 the main beneficiary of the additional expenditure allocation was the sector of Agriculture (18.9% increase in spending). There have been three in-year amendments to the State Budget Law on the 30th of June, 15th of July and the 1st of October. The revisions of the 15th of July and 1st of October were about editorial changes to the law and minor changes in the spending of the central apparatus of the President. The main amendment reflecting the increased revenue collection and budget allocation was introduced on the 30th of June.

Comparison of 2011 and 2008

On average the aggregate expenditure deviation is lower in the period under review than the period examined by the 2008 PEFA assessment. This improvement can be attributed to the commitment of the Government to a fiscal consolidation process. The revenue over-performance in 2008 did not result in a proportionate increase in spending and as a result the overall fiscal deficit in 2008 was limited to Lei 630 million, or only 1% of GDP[12].

In addition, from 2008 the Treasury introduced zero balance accounts[13] for spending units that further tightened the spending aptitude for the following three years. This was part of a general move to introduce the Treasury Single Account which came to cover all public funds from the 1st of January 2008.

Aggregate budgetary planning in the last three years has been more realistic than in the past. Revenue and expenditure over and/or under-estimations have been minimised. This is corroborated by the fact that the deviations between the appropriations of the 2008 and 2009 and 2010[14] State Budget laws and the initial expenditure ceilings defined in their respective MTEFs have been considerably smaller than in the past (see PI-12).

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M1)	**B+**
Dimension	**Minimum requirements**	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	Variance in expenditure composition exceeded 10 % in no more than one of the last three years.	B
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	A

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.

The analysis is conducted on the basis of the breakdown of *Central Government Budget* expenditure by sector (general group) of functional classification. The Moldovan functional classification has 21 general groups. Our analysis incorporates functions "18-Repleshiment of the Reserve fund" and "23-

[12] IMF Country Report 11/200 of July 2011.

[13] According to this process end-of-the-day cash balances in the accounts of spending units are cleared back into the treasury single account, and the Treasury may impose a cash disbursement limit (for a given spending unit) on a particular transaction account, enabling proper monitoring. This means that payment orders sent by spending units will be accepted up to a certain limit defined by Treasury.

[14] Although the MTEF 2010-2012 was not formally approved the process was conducted in an orderly manner and the MTEF was fully developed.

Net-lending"[15] with "20-Activities and services not assigned to other main groups" abbreviated as *Other Expenditures*. This is done also to ensure consistency with the 2008 assessment[16].

Table 8: State Budget expenditure breakdown by functional classification, out-turn compared to initial appropriations *(in million Lei)*

Function/General group		2008		2009		2010	
		Budget	Actual	Budget	Actual	Budget	Actual
01	General public services	872.7	912.6	1,102.9	930.4	851.7	834.9
02	Foreign affairs	267.4	271.0	260.6	200.7	216.6	211
03	National defence	279.4	375.7	276.7	242.4	226.7	228.3
04	Judicial system	291.6	278.0	323.2	306.5	318.9	338.2
05	Public order & safety	984.9	1,176.7	1,365.6	1,280.3	1,031.9	1,044.3
06	Education	1,489.6	1,709.5	1,818.8	1,712.5	1,874.0	1950.0
07	Science & innovation	393.6	394.8	511	353.8	341.7	357.1
08	Culture, sports & youth	247.6	327.8	299.7	287.6	217.9	231.9
09	Health	3,133.3	3,118.8	4092.1	3,630.6	3,796.2	3,783.4
10	Social insurance & social protection	7,277.8	7,352.1	8,762.7	8,678.4	9,477.5	9,790.3
11	Agriculture, forestry, fishing & water	573.4	902.3	696.6	853.2	545.9	649.2
12	Environment & hydrometeorology	89.5	82.7	98.3	149.6	191.8	173.4
13	Industry & construction	25.3	17.9	28.1	21.2	18.4	18.2
14	Transport, roads & communication	487.8	872.0	531.9	367.8	743.5	706.5
15	Housing & community services	145.2	34.6	227.1	18.0	19.6	5.6
16	Fuel & energy	10.4	119.0	6.2	20.1	2.7	0.1
19	Other economic affairs	92.9	140.4	91.3	77.5	78.2	73.3
20	Other expenditure	2,909.6	3,419.0	3,802.9	3,709.4	4,349.6	4,291.9
Total expenditure		19,572.0	21,505.3	24,295.7	22,840.0	24,302.8	24,687.6
-	Combat of natural disasters	0.0	0.0	0.0	0.0	193.6	190.0
Total expenditure with contingent spending		19,572.0	21,505.3	24,295.7	22,840.0	24,496.4	24,877.6

Source: Annual budget Laws 2008, 2009 & 2010; Laws on SSIF and CIFMA 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

As in the case of PI-1 the table above show budgeted and actual expenditure of the State Budget without debt service payments and donor funded project expenditures, and of the SSIF and CIFMA budget excluding the transfers from the State Budget. The net expenditure of the SSIF is accounted for in Group "10-Social insurance and social protection" and the net expenditure of the CIFMA is accounted for in Group "09-Healthcare".

Table 9: Total absolute expenditure variance and variance in expenditure composition during the last three years, excluding contingency items

Year	Total absolute expenditure variance (%)	Variance in expenditure composition, PI-2 (%)
2008	11.4	11.8
2009	7.8	7.5
2010	3.0	2.7

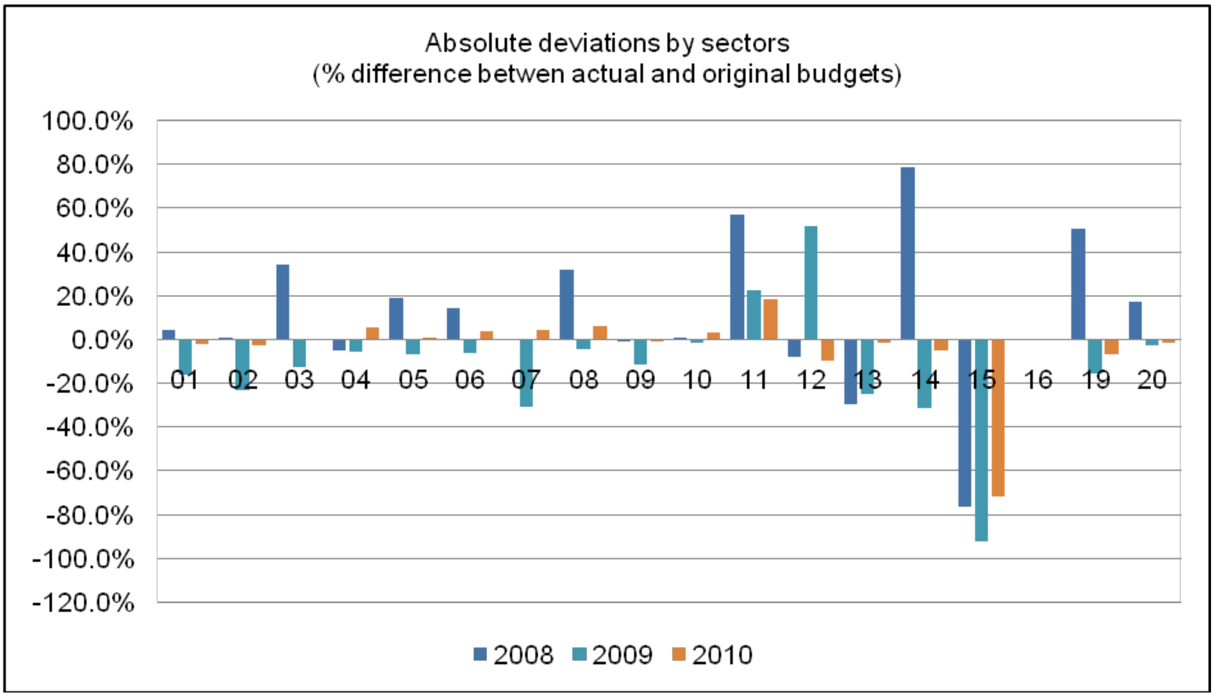
[15] NB: there are no groups 21 and 22 in the functional classification. See PI-5 for details.

[16] The analysis of the variance in expenditure composition was conducted on the basis of the Moldovan functional classification to ensure consistency with the previous PEFA assessments. There are however reservations about the analytical value of making comparisons on the basis of broad functions. There are views (not less the guidelines issued by PEFA) that an analysis on the basis of the organisational/administrative classification would be much more useful in understanding the nature of expenditure deviations from the planned budget because it would reflect the management budget and enable analysis on the basis of the responsibility/cost centres of the budget.

The table above shows that the absolute expenditure variance (i.e. the sum of the absolute deviation as compared to the original budget appropriation[17]) has been higher in 2008 and 2009 than in 2010.

Similarly, the variance in expenditure composition exceeded the overall deviation in primary expenditure outturn substantially in 2008 and 2009. It was, however, much less in 2010 also due to the very low deviation of actual total expenditure outturn from the total budget appropriation as well as the smaller absolute deviations in the main sectors (functions) of expenditure. The variance in expenditure composition was mainly attributed to in-year increases in expenditure on Agriculture and sharp cuts in capital expenditure linked to Transport on the aftermath of the economic crisis. The diagram below illustrates the absolute deviation by group of functional classification for the three years under review.

Diagram 8: Absolute deviations in groups of functional classification in 2008, 2009 and 2010



**Group 16 is eliminated from the diagram because of very low share in total actual expenditure 0.5% and extraordinary high absolute deviation of 1044% in 2008 caused by the sharp increase in spending due to large in-year increases in prices of thermal energy services.*

Source: Annual budget Laws 2008, 2009 & 2010; Laws on SSIF and CIFMA 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

The Moldovan classification system did not foresee a separate expenditure item for unforeseen events until the 2010 State Budget. There has been no expenditure in 2008 and 2009 that can be clearly identified as contingent spending. In the 2010 Sate Budget funds were appropriated under administrative classification item 207 for emergency purposes such as natural disasters, and funds were actually spent on alleviating damages caused by floods. The share of this emergency plan was a mere 0.3% of the total planned expenditure in 2010.

Comparison of 2011 and 2008

The variance in expenditure composition in all of the three years under review has been substantially higher than in 2005, 2006 and 2007 examined by PEFA 2008. This is mainly due to the continuous and substantive in-year increases in allocations to Agriculture. Other sectors also experienced considerable variances but did not reveal definitive increasing trends. For instance, in 2008 expenditure on Transport was substantially increased during the year, while in 2009 it was

[17] This is different from PI-1, which looks at the negative and/or positive deviation of actual expenditure outturn from the appropriated budget.

substantially decreased. Despite higher composition variances the Government was able to maintain the overall hard budget constraint and keep relative discipline in the path to fiscal consolidation as shown in PI-1.

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M1)	**B**
Dimension	**Minimum requirements**	
Actual domestic revenue compared to domestic revenue in the originally approved budget.	Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years.	B

The total revenue attributed to the *Central Government Budget*, which covers the following sources of revenue:

- State Budget revenue excluding Grants;
- Grants;
- Revenue of the SSIF – State Social Insurance Fund excluding transfers from the State Budget, and;
- Revenue of the CIFMA – Compulsory Insurance Funds for Medical Assistance excluding transfers from the State Budget.

The table below shows the aggregate domestic revenue outturn compared to the original appropriations for the years 2008, 2009 and 2010. The analysis and assessment of this indicator is made excluding grants.

Table 10: Central Government Budget revenue out-turn compared to original appropriation *(in million Lei)*

	2008			2009			2010		
	Budget	Actual	Deviation (%)	Budget	Actual	Deviation (%)	Budget	Actual	Deviation (%)
(1)Total State Budget, incl. Grants	14,658.0	15,977.5	109.0	17,734.9	13,833.0	78.0	15,318.0	17,167.7	112.1
(2)Grants	1,175.1	1,068.2	90.9	1,329.2	1,287.9	96.9	2,067.0	1,954.9	94.6
(3) State Budget, less Grants (1-2)	13,482.9	14,909.3	110.6	16,405.7	12,545.1	76.5	13,251.0	15,212.8	114.8
(4)SSIF	5,299.5	5,460.6	103.0	6,450.3	5,613.2	87.0	5,735.4	5,989.7	104.4
(5)CIFMA	1,169.1	1,211.1	103.6	1,650.7	1,422.1	86.2	1,457.1	1,497.9	102.8
(6)Total domestic revenue (3+4+5)	19,951.5	21,581.0	108.2	24,506.7	19,580.4	79.9	20,443.5	22,700.4	111.0

Source: Annual budget Laws 2008, 2009 & 2010; Laws on SSIF and CIFMA 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

Unlike the period reviewed under the 2008 PEFA during which revenue collection consistently over-performed the appropriation, the period under review of the 2011 PEFA was characterised by volatility. This volatility is largely attributed to the impact of the economic crisis on growth.

In 2008, the over-performance of the revenue target continued as a result of the higher than projected GDP growth of 7.8%. Conversely, in 2009 GDP contraction by 6.0% as compared with the 7% growth projected in the budget lead to dramatic under-performance in revenue collection. In 2010, economic recovery was faster than expected and actual GDP growth was 6.9% as compared to the projected 2.5% resulting in higher than planned revenue collection by 11 percentage points.

The main source of revenue for all the three years under review has been VAT taking up on average 60% of the State Budget revenue (13% of GDP). Altogether indirect taxes (VAT, Excises and Foreign trade taxes) accounted on average for 75% of the State Budget revenue. However, excise rates have been lower than in neighbouring and peer countries leaving VAT as the predominant tax base.

In 2008 corporate income tax on re-invested profit was zero rated as part of a stimulus policy package. There are plans for its reinstatement from 2012 with rate of 12%, which is expected raise budget revenue by 1.1% of GDP[18].

In 2008 all the main sectors with minor exceptions gained from the over-performance of revenue targets in terms of increased expenditure. However, in 2009 all the main sectors, with the exception of Agriculture, were forced to cut expenditure. That said, the near 20% under-performance in revenue collection was met by only 6% of overall reduction in expenditure, which inevitably led to a large widening of the overall fiscal deficit from 1% of GDP in 2008 to 6.3% of GDP. In 2010, although the revenue target was overshot by 11 percentage points the overall in-year increase in expenditure was 1.6% in-year increase revealing the more prudent fiscal policy of the Government. As a result the overall fiscal deficit was brought back to 2.5% of GDP.

Comparison of 2011 and 2008

In 2008 the old methodology was used to assess this indicator. If the new methodology were to be applied to the years reviewed by the 2008 PEFA, the score awarded would have been “C” due to the sharp over-performance of the revenue appropriations in 2005 and 2007. Therefore, the score “B” under the 2011 PEFA assessment constitutes an improvement in overall performance of revenue policy and administration.

Developments in 2011

From 2012 the Government plans to initiate a comprehensive tax policy reform to enhance the revenue bases and establish a more efficient tax administration and business-friendly system. These reforms include the reintroduction of the corporate profit tax with a low rate but a broad tax base, increase excise rates to bring them closer to those of neighbouring countries, and undertake reforms in tax administration.

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

	Score (scoring method M1)	**A**
Dimension	**Minimum requirements**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	The stock of arrears is low (i.e. is below 2% of total expenditure).	A
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	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).	A

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

The analysis looks at the stock of arrears at the end of each of the year under review in this 2011 PEFA; 2008, 2009 and 2010. The MoF Order No. 21 of the 18th of February 2005 provides the regulatory basis for defining arrears. The Moldovan definition and accounting of arrears is broadly in line with the internationally accepted practices according to which a claim will be considered in arrears if payment has not been made within 30 days from the public institution receiving the invoice/claim from a supplier.

The analysis below captures only arrears to final suppliers of goods and services and final beneficiaries. This includes arrears generated by the Central Government Budget, including SSIF and CIFMA defined as “external arrears”. The arrears from the State Budget to SSIF and CIFMA are excluded from the calculation of this indicator and are defined as “internal arrears”.

The table below shows the stock of arrears of the State Budget, SSIF and CIFMA:

[18] IMF Country Report 11/200 of July 2011.

Table 11: Stock of arrears in 2008, 2009 and 2010 (in million Lei)

Classification of arrears	2008	2009	2010
Total State Budget expenditure	14,998.0	15,586.7	17,233.3
Transfers to SSIF and CIFMA	2,379.8	3,413.5	4,352.9
Arrears to SSIF and CIFMA (internal)	*3.3*	*0.4*	*1.4*
Other arrears (external)	*43.8*	*272.4*	*137.4*
Total expenditure of SSIF	6,315.1	7,607.2	8,629.3
Arrears of SSIF (external)	*35.9*	*50.2*	*65.4*
Total expenditure of CIFMA	2,572.0	3,071.4	3,367.8
Arrears of CIFMA (external)	*17.3*	*10.6*	*0.0*
Total expenditure	21,505.3	22,840.0	24,877.6
Total arrears[19]	*97.0*	*332.8*	*202.8*
Arrears/Total expenditure (%)	0.4	1.5	0.8

Source: Annual budget Laws 2008, 2009 & 2010; Laws on SSIF and CIFMA 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

In 2008 and 2010 external arrears have been below 1% of total expenditure, while in 2009 they registered at 1.5%. This explained by the substantially lower than planned revenue collection (see PI-3) which lead to acute cash shortfalls during and at the end of the year. Despite the difficulties created by the impact of the economic crisis on fiscal management, in none of the years under review did external arrears go beyond over 2% of total expenditure. Moreover, there has been no accumulation of arrears on public debt.

However, the fact that there is no dedicated system of expenditure commitment management means that overall expenditure control is based on the existing system of controlling commitments and cash rationing enforced by Treasury (see PI-16 and PI-20). There is always the looming risk of hidden arrears that would only be curtailed with the introduction of a fully developed commitment management system.

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

Information on the stock of arrears is obtained in the State Budget execution report. The format and content of data is determined template No. 2.1 CNAS (SSIF) approved by MoF Order no. 97 of the 28th of November 2005 and template No. 2 CNAM (CIFMA), approved by MoF Order no. 29 of the 29th of February 2008.

For the period under review by this PEFA assessment the information was included in:

- 2008 State Budget Execution Report – Template No. 14, approved by MoF Order No. 15 of the 13th of February 2009;
- 2009 State Budget Execution Report – Template No. 14 approved by MoF Order No. 24 of the 16th of February 2010;
- 2010 State Budget Execution Report – Template No. 8, approved by MoF Order No. 16 of the 11th of February 2011.

In addition, the information on budget execution including arrears is published on a monthly basis on the MoF website[20]. The annual reports are also available both on the MoF website and in the official government bulletin *Monitorul Oficial*.

Comparison of 2011 and 2008

There have been no substantial changes between the period reviewed by the 2008 and 2011 PEFA assessments, except minor improvements in monitoring of arrears. These improvements are linked with the templates established by the MoF in 2008 for reporting of arrears of CIFMA.

[19] NB: The reported arrears are overestimated due to the way in which liabilities are reported in the annual State Budget Execution reports. This is because a part of what is attributed as arrears includes December expenses due for salaries, social contribution and procurement of goods and services of SSIF and CIFMA, which are customarily paid in mid-January after the closing of the accounts of the fiscal year. Therefore, although formally recorded as arrears Lei 21.8 mln in 2008, Lei 15.8 in 2009 and Lei 5.1 mln in 2010 were payments actually made by SSIF and CIFMA within 30 days from the claims falling due. These amounts do not qualify as arrears and should be subtracted from the total SSIF and CIFMA figure reported in arrears.

[20] http://www.mf.gov.md/ro/raportinfo/budget/state/month/Cumulativ2010/

Developments in 2011

There is evidence of building-up arrears by public entities other than central government levels that is not captured by the coverage of this indicator. This has been an area of concern highlighted in meetings with the IMF. The main source of arrears at the local government level is the delay in payments for heating to the Municipal Enterprise *Termocom* by Chisinau Municipality amounting to 0.1% of GDP. In 2010 and 2011 the Government and Chisinau Municipality undertook measures to minimise the risk of generating quasi-fiscal arrears in the energy sector. These measures included the signing a Memorandum of Understanding that established a mechanism to ensure timely payments between all parties concerned and eliminate all current arrears before the next heating season[21].

3.2 Transparency and comprehensiveness

PI-5. Classification of the budget

	Score (scoring method M1)	B
Dimension	**Minimum requirements**	
The classification system used for formulation, execution and reporting of the central government's budget.	The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.	B

The budget classification is stipulated in Article 7 of the Law on the Budgetary System and the Budgetary Process (LBSBP – No. 847 XIII of the 24th of May 1996 with later amendments) with the following categories:

- Functional classification – This includes 21 groups at Level 1 and 117 groups at Level 2. The functional classification although not fully COFOG compliant, is consistent with COFOG and a conversion table between the existing classification and the COFOG classification is routinely produced for reporting to the IMF. The assessors had the opportunity to verify that the conversion table was used in all three years under review by the 2011 PEFA by examining the formal communication of the MoF to the IMF. The existing classification indeed covers at least 10 COFOG functions and provides a reasonable analytical framework of the allocation of resources in sectors.
- Organisational classification – This follows the administrative structure of the prevailing budget in terms of institutions, agencies and enterprises
- Economic classification – This is currently based on the GFS 1986
- Revenue classification – This is on the basis of the legislation and regulation that determines the specific revenue sources.

The actual details of the four classifications are specified in the MoF Order No. 91 of the 20th of October 2008 on Budget Classification (with later amendments). The Order also includes a programme classification (with 19 programmes and 85 sub-programmes), which covers pilot sectors being tested for a possible future application of a form of programme budgeting.

With regard to the organisational classification it is noted that entities subordinated to a given ministry[22] are as a rule incorporated into the ministries' budgets.

Comparison of 2011 and 2008

There are no major differences between the periods covered by the 2008 and 2011 PEFA assessments. The difference in score from the assessment of 2008 is not about content but a reflection of the fact that the incumbent system did indeed cover the basics of an administrative, economic and functional classification required by the relevant PEFA criterion. During the period under review, there has been a large volume of on-going work by the MoF already since 2008, assisted by the World Bank-led PFM Project. This work has culminated in the development of a new

[21] IMF Country Report N 11/200, July 2011
[22] For example, institutions of residential care known as *internats* in the case of the Ministry of Labour, Social Protection and Family.

budget classification system and single/unified Chart of Account for the public sector based on GFS 2001. The economic and functional budget classifications were tested during 2009-2010 and a new ministerial order issued on its implementation from 2013 – see below.

The new system means that *economic classification* will record all flows and transactions of revenue, expense, assets and liabilities within the analytical framework of GFS 2001. This will allow the MoF to prepare reliable fiscal information on a cash basis (the system would also accommodate information on the accruals basis) for general government in line with international standards. The *functional classification* will remain an independent dimension of the budget classification and is developed in compliance with the COFOG framework. The second and third levels are linked to programmes and sub-programmes (activities).

Developments in 2011

The MoF recently finalised and approved (Order No. 32 of the 30th of March 2011) a new budget classification and methodological guidelines. When implemented, the new budget classification system will include the following:

- Organisational classification – Following the administrative structure of the government;
- Functional classification – 10 groups, Levels 1 and 2 complying with COFOG;
- Economic classification – Based on GFS 2001;
- Programme classification – With 47 programmes, 202 sub-programmes and 426 activities;
- Budget Revenue source classification.

The new system depends very much on the implementation of the Financial Management Information System which is currently under development. The PEFA team was informed during the assessment that the FMIS and the unified Chart of Accounts were expected to be in place for the 2013 fiscal year. However, it is noted that there were concerns (including those expressed by the recent aide memoire of the IMF/Centre for Excellence in Finance (CEF) in January 2011) that possible delays in the FMIS implementation can disrupt financial management. Indeed, the team was informed at the final stages of this PEFA assessment that the new system will not be going live on the planned date. There is a large volume of evidence across the world about long delays and other dysfunctions in FMIS, which should be taken into account. A contingency plan should therefore be developed given the delays. MoF representatives expressed similar views at the time of the assessment there was no discussion about contingency planning.

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

	Score (scoring method M1)	**A**
Dimension	**Minimum requirements**	
Share of nine core pieces of information in the budget documentation most recently issued by the central government.	Recent budget documentation fulfils 8 of the 9 information benchmarks.	A

The main annual budget document submitted to and adopted by the Parliament is the State Budget (the preparation, reading and appropriation processes are described under PI-11 and PI-27).

The budget in Moldova is unitary with aspects of delegation and deconcentration. The *National Public Budget*[23] consists of the State Budget, the State Social Insurance Fund (SSIF), the Compulsory Insurance Funds for Medical Assistance (CIFMA), and the Administrative-Territorial Unit (ATU) budgets (which in turn consist of the budgets of the ATU of level 2 (*rayons*, Chisinau municipality and the Autonomous Republic of Gagauzia) and level 1 (*primarie*, i.e. cities and villages).

The purpose, process and content of the annual Budget (as well as the MTEF) are outlined in Articles 14-24 of the Law on the Budgetary System and the Budgetary Process (No. 847 XIII of the 24th of May 1996 with later amendments). According to Article 24, the draft Budget must comprise annexes that include projected revenues and expenditures for the next budget year as well as additional data required by the annual budget law. An explanatory note must furthermore include revenue and expenditure forecasts as well as estimations based on the social and economic development strategy,

[23] This broadly corresponds to the GFS definition of general government budget.

budgetary and fiscal policies, strategies of state debt, strategies of financial support, and strategy of interrelation between the State Budget and the budgets of the Administrative-Territorial Units (ATUs).

The Government's three-year Medium-Term Expenditure Framework (MTEF) is provided to the Parliament for information. The MTEF is an estimate of the aggregate resources available to sectors and ATUs on the basis of cost estimates submitted by line ministries, agencies and local governments balanced against the prevailing macroeconomic parameters and fiscal projections. The MTEF kicks off the annual budget process and provides the hard budget constraint for each budgetary institution.

The information included in the State Budget and the MTEF is outlined below.

Element	State Budget	MTEF
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 recognised 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.	Partially	No
6. Prior year's budget out-turn, presented in the same format as the budget proposal.	Yes	Yes
7. Current year's budget (either the revised budget or the estimated out-turn), 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 programmes.	Yes	Yes

As the table shows, the draft State Budget includes eight of the nine criteria required by the assessment framework. Information on financial assets does not appear to be available to the Parliament at the time of reviewing the draft Budget (nor through another regular and official report). According to the MoF, financial assets are included in budget execution reports but there is an open question on what is really understood as financial asset in the context of Moldova.

Comparison of 2011 and 2008

There have been no major changes since the 2008 PEFA assessment.

Developments in 2011

According to the MoF, the development of the new FMIS (supported by an on-going World Bank-led PFM Project) plans to include a module that will enable the preparation of reports on financial assets.

PI-7. Extent of unreported government operations.

	Score (scoring method M1)	A
Dimension	**Minimum requirements**	
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	A
(ii) Income / expenditure information on donor-funded projects which is included in fiscal reports.	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	A

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

The annual State Budget, in-year budget execution reports and the annual budget execution reports (on State Budget, SSIF and CIFMA, and on *National Public Budget*) cover all activities (revenues and expenditures) of what would be broadly defined as general government in GFS terms. There are thus no unreported extra-budgetary expenditures.

It is noted that the Law on the Budgetary System and the Budgetary Process (No. 847 XIII of the 24th of May 1996 with later amendments) defines so-called Special Funds (Article 49) and Special Means (Article 12). *Special Funds* are funds collected for specific purposes and/or programmes (e.g. for educational textbooks) of the Government or local public administration authorities based on separate laws or other decisions, and are included in the State Budget. *Special Means* are own-source revenues of public institutions obtained under the conditions established by normative acts (e.g. for works or provision of services as well as from donations, sponsorships and other sources). Special means are included in the respective budgets of the entities and are used for making expenditures related to the statutory activities of these institutions in accordance with the principles and rules for the budgets. Special Funds and Special Means have been part of the annual State Budget since 2005 and are thus approved by the Parliament.

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

All major donor grant and loan financed investment projects are included in the appropriations and form part of the routine fiscal reporting processes (see PI-10). The table below provides a summary of the aggregate amounts planned in the 2008, 2009 and 2010 State Budget Laws and their corresponding execution reports.

Table 12: Donor financed projects: original appropriations in State Budget Law and actual outturn reported (*in thousand Lei*)

	2008		2009		2010	
	Original Budget Appropriation	Actual Expenditure	Original Budget Appropriation	Actual Expenditure	Original Budget Appropriation	Actual Expenditure
Grants	444,088.0	351,916.2	771,080.0	595,878.4	517,000.0	572,099.8
Loans	707,461.9	346,864.0	713,938.7	455,362.1	1,078,883.9	618,735.2
Total	1,151,549.9	698,780.2	1,485,018.7	1,051,240.5	1,595,883.9	1,190,835.0

Source: Annual budget Laws 2008, 2009 & 2010; Budget execution reports 2008, 2009 & 2010.

Comparison of 2011 and 2008

It is noted that the number of *Special Funds* was reduced from nine in 2007 to four in 2010. The ones that remained in the 2010 appropriation were: the *Textbook Fund* (managed by the Ministry of Education worth MDL 33.3 million) funded by rental fees paid by parents, the *Social Assistance Fund* worth MDL 88 million, and two ecological funds for national and local level of a total of MDL 154.9 million. It is planned to integrate these funds in due course. The related expenditures in 2010 amounted to 1.4% of the State Budget expenditures. Expenditures funded from *Special Means* amounted to 5.7% of total expenditures in 2010 (compared to 8.2% in 2007).

It is noted that in the 2008 PEFA calculations were based only on grants and the extent to which these where included in reports. In this 2011 PEFA both grant and loan investment projects to the government sector are taken into account as required by the guidelines. However, it is not possible to ascertain whether this constitutes an improvement or no change from the period reviewed under 2008 PEFA.

Developments in 2011

There are no specific developments in 2011.

PI-8. Transparency of Inter-Governmental Fiscal Relations

	Score (scoring method M2)	**A**
Dimension	**Minimum requirements**	
(i) Transparency and objectivity in the horizontal allocation among SN governments.	The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems.	A
(ii) Timeliness of reliable information to SN governments on their allocations.	SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.	B
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories.	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.	A

(i) Transparency and objectivity in the horizontal allocation among SN governments.

In Moldova the decentralised sub-national (SN) governments are known as Administrative Territorial Units (ATUs). There is a two level ATU system: level 2 (*rayons*, Chisinau municipality and the Autonomous Republic of Gagauzia) and level 1 (*primarie*, i.e. cities and villages). Level 2 ATUs covered by this indicator are 35 in total.

Inter-governmental budgetary relations are regulated by the following laws:

- Law on the Budget System and the Budget Process (LBSBP) (No.847-XIII as of the 24th of May 1996) – the organic budget law;
- Law on Local Public Finance (LLPF) (No.397-XV as of the 16th of October 2003);
- Law on Administrative Decentralisation (No.435-XVI as of the 28th of December 2006);
- Law on Local Public Administration (No.436-XVI as of the 28th of December 2006).

The allocation of fiscal transfers from the central Government to local governments is made on basis of articles 9, 10 and 11 of LLPF. The State Budget balances ATU budgets by executing transfers on the basis of the equalisation transfer formula taking into account the amount collected from taxes and other payments assigned to ATUs. There are provisions for ATU with high levels of income and for the ones with specific and high expenditures. The table below provides a general overview of the volume of fiscal transfers in the period under review. Fiscal transfers made from the central Government to level 2 ATUs in Moldova are governed by clear rules.

Table 13: State Budget transfers to ATUs 2008-2010

	2008	2009	2010
Total fiscal transfers	2,873,970.0	3,124,474.1	4,322,140.1
Equalisation fiscal transfers	2,718,500.0	2,841,900.0	4,160,200.0
Special purpose fiscal transfers	155,470.0	282,574.1	161,940.1

Source: State Budget Annex 13 in 2008 and 2009 and Annex 7 in 2010

However, a proportion of the aforementioned fiscal transfers from the State Budget (central Government) are intended for the 896 level 1 ATUs. Level 2 ATUs determine transfers to next level of local government in a cascading manner. Article 21 of the LLPF mandates level 2 ATUs to approve allocations to level 1 ATUs. This system has not functioned smoothly and there has been increasing concern about the absence of transparency[24]. The 2008 PEFA assessment reported on a law under preparation that would have effectively made central Government determine directly the entire volume of fiscal transfers for both levels of local government. This has not been developed yet.

(ii) Timeliness of reliable information to SN governments on their allocations.

The LBSBP mandates central Government to lead the budget planning and formulation process for both local government and central government entities. There is therefore a single and integrated budget process (see also PI-11) for all levels of government.

Article 19 of the LLPF determines the budget process and calendar. The MoF issues methodological instructions to the executive authorities of level 2 ATUs including macroeconomic forecasts, basic principles of the Government's policy with regard to revenues and expenditures for the following year(s) and a forecast of the share of allocation from the State Budget to local government budgets. The latter incorporates the relevant criteria governing the calculations for specific allotment in local government budgets. Level 2 ATUs are required to pass the relevant information to level 1 ATUs within 10 days from receipt of the methodological instructions. Executive authorities of level 2 ATUs put together their draft budgets within 20 days from receipt of the methodological instructions and other relevant information.

Article 20 of the LLPF stipulates that the executive authorities of level 1 ATUs should submit their draft budgets for examination by their local councils by the 15th of November. Similarly, article 21 of the LLPF requires level 2 ATUs to submit their draft budgets by the 1st of November to their councils. These articles also require that level 1 and level 2 ATUs must have their budgets approved by their local councils at the latest on the 15th and 10th of December respectively. This follows swiftly the appropriation of the State Budget[25] which is set by article 30 of the LBSBP to be the 5th of December. It is noted that under article 24 of the LLPF, ATUs are required to adjust their approved budgets in compliance with the final appropriations in the State Budget Law within 30 days after its publication.

The MoF and other administrative units of the Government make consistent and concerted effort to maintain discipline in the budget process (see also PI-11) in spite of difficulties experienced in recent years the political domain. However, these political difficulties have arguably created more problems in the period under examination that in the period examined by the 2008 PEFA. A robust system and budget calendar is indeed in place enabling local governments to be provided reliable and timely information for the preparation of their budgets but there have been a few cases of slippage in one out of the three years in the period under review.

The considerable delay in the adoption of the 2011 State Budget Law (see PI-11) disrupted budget preparation of ATUs. In addition, many ATUs were subjected to last minute revision of the fiscal transfer that was originally (in line with the budget calendar) communicated to them to prepare their budgets. For instance, Chisinau Municipality was stripped of its fiscal transfer in the 2011 Budget despite having received an original allocation and having completed its budget process – the central government fiscal transfer routinely made up between 8-10% of its total income.

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories.

Article 29 of the LLPF requires that ATU budgets execution reports are finalised and approved by local government executive authorities and councils before the 15th of February of the year following the fiscal year. Budget execution reports must be submitted to the MoF to be included in the report on the execution of the National Public Budget. This process is adhered as required by the law.

Comparison of 2011 and 2008

Although there have been no major systemic changes between the periods examined by the 2008 and 2011 PEFA assessments, the latter has experienced considerably more disruption due to political turmoil. This is in essence the main reason why the second dimension in this indicator has scored a "B" as opposed to the "A" in the previous assessment. Ultimately these political disturbances led to a less than perfect budget preparation process (see also PI-11 for more detail) whereby local governments were not always given timely and/or reliable information to prepare their budgets in due

[24] See January 2011 aide memoire of the IMF/Centre for Excellence in Finance (CEF).
[25] NB: Under the provisions of Art. Art. 26 and 32 of the LBSBP, the Government must submit to Parliament the draft Law on the State Budget by the 1st October, including both central and local government budgets.

time.

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M1)	B+
Dimension	**Minimum requirements**	
(i) Extent of central government monitoring of AGAs and PEs.	All SEs and JSCs submit fiscal reports including audited accounts to central government at least annually, and central government consolidates overall fiscal risk issues into a report	B
(ii) Extent of central government monitoring of SN governments' fiscal position.	The net fiscal position is monitored at least annually for the most important level of sub-national government, and central government consolidates overall fiscal risk into a report.	A

(i) Extent of central government monitoring of AGAs and PEs.

As of the 1st of October 2010, the Public Property Agency (PPA) of the Ministry of Economy formally registered 315 state enterprises (SEs) with overall capitalisation of 5.6 bullion MD Lei and 196 corporatized companies (knows as JSCs – joint-stock companies) with overall capitalisation of 5.5 billion MD Lei, of which the state participation was to the amount of 3.7 billion MD Lei or 67.3% of total capitalisation.

Oversight responsibilities lie with the Monitoring and Financial Analysis Department (MFAD) of the Ministry of Finance, which was first established in 2004. MFAD monitors the financial status of SEs and JSCs with 50+1% state participation. The oversight process takes place on the basis of the financial reports, prepared by the management of the enterprises and companies and approved by their respective line ministries and agencies, submitted to the National Bureau of Statistics (NBS). MFAD also corroborates information from the Main State Tax Inspectorate (MSTI) and the General Public Debt Division (GPDD) of the Ministry of Finance. The SE "FinTechInform" assists MFAD with the consolidation and management of the financial data received by the NBS. This SE has a general mandate for information technology management by the MoF.

One of the main developments since the 2008 assessment is the MFAD prepares a consolidated and comprehensive financial report for the Government every quarter covering all SEs and JSCs and including the assessment of fiscal risk. It also prepares a breakdown of financial performance and fiscal risk for line ministries regarding the SEs and JSCs under their subordination. The existing system allows MoF to exercise oversight over these entities and rigorously monitor their financial stance. In the event that risks are identified, MoF has the discretion to request an inspection by the Financial Control and Revision Service. The draft annual budget documentation includes an overall statement regarding fiscal risk supported by aggregated financial information derived by MFAD monitoring and quarterly reporting system.

In 2010, MFAD and PPA prepared a report on the management of public property covering the period of 2004 and 2009 and submitted it to the Government. The report covered two distinct periods: an analysis of economic-financial indicators of SEs and JSCs was undertaken for the period of 2004-2006, and a more detailed analysis of economic and financial performance was made for the period 2007-2009[26].

Another important development since the last PEFA assessment in 2008 was the promulgation of the 2007 Law on Audit Activity (No. 61-XVI of the 16th of March 2007). From the 1st of January 2009, all SEs and JSCs are obligated by law to have their annual financial reports audited. Audits are carried

[26] Accoring to the Law on the Administration and Denationalisation of Public Property No.121-XVI, 4 May 2007, MFAD submits six-months and yearly reports to PPA in order to facilitate the process of understanding regarding the growth prospects of these entities. PPA also needs this information in case where there is scope for restructuring, re-organisation and potential for denationalisation.

out either by independent external auditors (practiced by the largest commercial SEs) the Court of Auditors or the FCRS (for entities with smaller capitalisation and limited business scope). These external audit reports include the auditor's opinion which is accessible if required by MoF. SEs and JSCs have also established internal audit units and have reportedly commenced establishing elements of an internal control system. Both the reports of the internal audit units and the external audit reports are submitted to management and the board of directors, and the general assembly of shareholders as the case may be.

The legal framework does not provide for the financial report submitted by SEs and JSCs to territorial statistical bodies to be accompanied by the independent/external audit report or the statement by the auditor. The quality of data in the financial report is assured by each entity and is confirmed by the independent audit report. In addition, the internal audit process is expected to function in an advisory capacity to the management of these entities. This includes improving drawbacks identified as a result of the independent audit.

In discussions with the IMF, the question of the quality of data provided by SEs and JSCs was raised echoing the 2008 PEFA assessment. It is apparent that one of the main constraints is limited capacity in these entities for generating proper data and information. It has not been possible to review the newly established internal audit units and independent auditing process and make judgement on how much this process could have impacted on the quality of data supplied to NBS and MoF. Moldova has made a decision to implement the International Financial Reporting Standards in the near future, which is very likely to improve overall quality in financial reporting and enable a better analysis of overall fiscal risk for the state.

Although there has been noticeable improvement since the 2008 PEFA study there is still room to improve the quality of fiscal risk analysis. Fiscal risks relate to inflows i.e. the risk of not receiving planned dividends from SEs and JSCs, and outflows i.e. the risk of spending more than planned due to contingent (direct or implicit) liabilities becoming due. International experience shows that the risk even for commercial companies in which the state has a stake rests ultimately with the government even if there are no formal guarantees in place.

There is also considerable transparency and access to information regarding major procurement of SEs and JSCs. Procurement notices are published in the *Monitorul Oficial* of the Republic of Moldova, in the *Buletinul Achizitiilor Publice* (Public Procurement News Bulletin) produced by PPA and on the website www.tender.gov.md in line with the 2007 Law on Public Procurement.

Regarding AGAs, in Moldova agencies do not enjoy financial autonomy and discretion as they are subordinated to and strictly controlled by government.

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

Budget execution at local government level is subject to tight controls by the central Treasury and its subordinate territorial units. In effect, once local government units (ATUs – administrative government units) have completed their annual planning and budget formulation process, including fiscal transfers, shared taxes and own-source revenue, rely on the Treasury for financial and cash flow management. In practice, a cash rationing system is in place with spending priorities being decided by local government based on available liquidity and transmitted to territorial treasuries.

Transfers made by central government to 2nd level ATUs and transfers made by 2nd level to 1st level ATUs (see PI-8 for a detailed discussion) are based on annual appropriations and subject to strict control via the monthly allocation process. Allocation cannot be exceeded without MoF approval and/or revisions in the appropriations authorised by Parliament.

MoF/Treasury monitors the execution of ATU budgets on a daily basis through the territorial treasuries. A consolidated quarterly (and annual) report is produced with regard to the execution of ATUs' budgets, approved by local councils and posted on the website of MoF since 2004.

ATUs submit to MoF reports on debt repayment by the end of the reporting month, including payments in arrears (not settled after 30 days from having fallen due).

The Law on Local Public Finance (LLPF – No.397-XV as of the 16th of October 2003) regulates the access of local public authorities of both the 1st and 2nd level to the short-term and long-term loans from domestic and foreign creditors. Moreover, 2nd level authorities are permitted to offer guarantees to 1st level local governments only with regards to loans on capital expenditure.

Comparison of 2011 and 2008

The main changes since the PEFA 2008 assessment regarding the first dimension were the consolidation of the financial monitoring process and the production of a consolidated report by MoF and the introduction of elements of internal auditing and annual external/independent auditing in SEs and JSCs in 2009 through the promulgation of the Law on Audit Activity. The consolidated report on the finances of SEs and JSCs produced by MoF is derived from audited financial data. The MoF has an adequate oversight of fiscal risk, which should be improved over time through increasing relevant skills and capacity and the introduction of IFRSs.

There have been no major changes since the 2008 PEFA assessment regarding the second dimension.

Developments in 2011

There are no specific developments in 2011.

PI-10. Public Access to key fiscal information

	Score (scoring method M1)	A
Dimension	**Minimum requirements**	
Public access to key fiscal information	The government makes to the public 5-6 of the 6 listed types of information	A

The table below discusses the elements determining public access to key fiscal information.

Element	Source
(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.	The State Budget is published in the in the official gazette *Monitorul Oficial* and posted on the website together with the MTEF. 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.	Reports are posted on the website of the Ministry of Finance on a monthly basis and made available the press and 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.	The report on the annual budget execution is made available in the *Monitorul Oficial*. The final report on the execution of the 2008 State Budget was delayed due to political reasons. It was approved by the Parliament on the 15th July 2010 and made public on the 21st of September 2010. The Court of Accounts published its audit report on the execution of the 2008 State Budget on the 28th of August 2009. The final report on the execution of the 2009 State Budget was approved by Parliament on time on the 15th of July 2010 – the same day as the report for the 2008 State Budget. The report was published by the Ministry of Finance on the 28th of September 2010. The Court of Accounts published its audit report on the 20th of August 2010. Partially 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 Accounts finalises its report on the audit of the execution of the State Budget within one month from receiving the report from the Government – see element (iii) above. The deadline for submitting its report to Parliament

Element	Source
	has been the 15th of July[27]. The report on the execution is published in the *Monitorul Oficial* within 15 days from the date of presentation to Parliament. The outcomes of all audits are published on the website of the Court of Accounts <u>Compliant</u>
(v)Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Tenders and contract are published quarterly in *Buletinul de Achiziţii*" ("Procurement News Bulletin") and on the website of the Public Procurement Agency. <u>Compliant</u>
(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 regarding the resources of all primary service units is available both at the State Treasury and the subordinate territorial treasuries and can be provided on request. It is possible to obtain information about the primary health care units from CIFMA. <u>Compliant</u>

3.3 Policy-based budgeting

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

	Score (scoring method M2)	**B**
Dimension	**Minimum requirements**	
(i) Existence of and adherence to a fixed budget calendar.	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows Ministries, Departments and Agencies 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.	B
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.	B
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.	C

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

The budget process is governed by the following legal and normative acts:

- Law on Budgetary System and the Budget Process (LBSBP) (No.847-XIII as of the 24th of May 1996) – the organic budget law – that establishes the key deadlines for approval of the draft annual budget by the Government, submission to Parliament and approval of deadline for appropriation of the Budget Law by Parliament;
- Law on Local Public Finances (No.397-XV as of the 16th of October 2003) that establishes key deadlines for budget approval by the 1st and 2nd level ATUs.

[27] An amendment setting the new deadline for submission of the CoA Report to 10 October was adopted in July 2011, but not yet promulgated as of September 2011.

– Government Decision N 82 of the 24th of January 2006 that establishes the MTEF and annual budget preparation calendar for central government entities and ATUs (Annex 3) and sample medium term expenditure forecast calendar for ATUs (Annex 4).

The Moldovan *National Public Budget* includes local government budgets (see PI-6 for definition and PI-8), which makes the MoF ultimately responsible for what is in essence an integrated budget planning and preparation process. The table below presents the integrated budget calendar for both central government entities and ATUs and points out the degree of adherence in the three years under review by the PEFA assessment.

Table 14: Degree of adherence to Budget calendar for MTEF and annual budgets 2009 - 2011

Milestones in Budget calendar	Deadline	Actual 2009 budget process	Actual 2010 budget process	Actual 2011 budget process
Update of the macroeconomic framework	Feb 07	Feb 22	Feb 10	Feb 18
Establishment of basic macro-fiscal framework (revenue, expenditure, deficit)	Feb 25	March 10	March 3	March 18
Central government entities submit to MoF their draft MTEF expenditure strategies	Feb 25	March 1	Missed	April 19
Notification of expenditure ceilings to central government entities	March 20	March 31	Informal	March 20
Government approval of MTEF	-	July 18 Oct 20[28]	Missed	Suspended
MoF issues annual budget methodological instructions to central government entities and ATUs[29], including budget ceilings	April 20	May 31	Informal	June 9
Central government entities and ATUs submit to MoF their draft annual budgets	June 01	July 10	Informal	July 15
Approval of the medium term expenditure forecasts of ATUs by local governments	June 20 [30]	See PI-8		
Budget negotiations/hearings between MoF and central government entities and ATUs	June 01 - July 20	June 17 - July 3	Informal	Aug 4 - Aug 16
MoF submits to Government the draft annual budget	Aug 25	Aug 25	Nov 30	Sept 20, 2010[31] March 1, 2011
GoM approves the draft annual budget and submits to Parliament – Articles *26 and 32 of LBSBP*.	Oct 1	Sept 29	Dec 7	March 14, 2011
Parliament adoption of annual budget law and appropriations – *Article 31 of LBSBP*.	Dec 5	Nov 21 2008	Dec 23 2009	March 31 2011
2nd level ATUs approve their final annual budgets	Dec 10	See PI-8		
1st level ATUs approve their final annual budgets	Dec 15	See PI-8		

As the information on the table shows there have been several disturbances to the implementation of the budget calendar in two out of the three years under review. There have been concerns expressed, including those by the 2008 PEFA assessors, that the budget calendar would require adjustment to reflect better the due process in budget preparation. However, in the period under review the causes of the slippages are mainly attributed to factors external to the system (i.e. political issues related to the elections as well as the impact of the economic crisis). Although there is no doubt that the calendar can be improved the existing provisions are satisfactory in the sense that they include all the necessary basic elements, also confirmed by the 2008 PEFA. The critical question for the future is its adherence.

It is noteworthy that in 2009 (2010 budget preparation process) the MoF in collaboration with line ministries and other central government entities managed to safeguard the integrity of the process despite the fact that there was no formal dissemination of the methodological instructions and no

[28] Final approval took place by Government Order No. 98-d on the 20 October 2008. This followed approval of the draft State Budget by Government.
[29] Article 19 of the Law on Local Public Finances determines the specific process for local government. This requires MoF to prepare annual methodological notes for level 2 ATUs. Level 2 ATUs must in turn prepare methodological notes for level 1ATUs.
[30] This deadline is indicative since Annex 4 of GoM Decree 82 is provided only as a guidance calendar for ATUs.
[31] The process was suspended in 2010.

formal notification of expenditure ceilings by the Government. The problems cascaded and ultimately the 2010-2012 MTEF and expenditure ceilings were never formalised during the budget preparation process. The budget submission and negotiation process was confined to the public servants without involvement from the political leadership. The fact that the 2010 budget was appropriated before the start of the fiscal year and with only a few days delay should be considered a major accomplishment.

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

The MoF issues detailed methodological instructions as guidance for the preparation of the MTEF and annual budget submissions, as can be seen in the table above. These instructions set out clearly the due process and communicate the Government's macro-fiscal assumptions to all those concerned. The instructions also notify central government entities and ATUs (in separate appendixes) of the expenditures limits by function and spending unit applicable for the forthcoming fiscal year and the two subsequent years. There are specific guidelines describing the manner in which certain standardised expenditure should be estimated (e.g. conditions for increase in wages) as well as standards and definitions regarding the formulation of budget submissions covering programmatic and performance elements.

In addition, the instructions provide guidelines to those entities that require producing revenue forecasts for the forthcoming year and the following two years, including the description of each relevant tax and the basis of estimate.

Despite the difficulties discussed in the analysis for dimension (i) and the frequent slippages from the budget calendar during the period under review, there is ample evidence that the MoF succeeded in safeguarding the integrity of the process. In particular, in 2009 (2010 budget process) where there was a near breakdown of the formal process the methodological instructions were issued as required and communicated informally to central government entities. This was also confirmed in discussions with line ministries that expressed their overall satisfaction with the MTEF and annual budget process.

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

As already discussed, LBSBP requires that the adoption of the annual budget law is completed by the 5th of December. The table above shows that there have been slippages in the years under consideration by the 2011 PEFA:

- The 2009 Budget was appropriated on the 21st of November 2008 Law No 244-XVI "On 2009 State Budget".
- The 2010 Budget was appropriated on the 23rd of December 2009 by Law No 133-XVI "On 2010 State Budget".
- The 2011 Budget was appropriated on the 31st of March 2011 by Law No 52 "On 2011 State Budget".

During January – April 2011 the State Budget, SSIF and CIFMA operated under the provisional procedures stipulated in LBSBP.

Given that in one year (2011 Budget) out of three under review, the delay in approval of the State Budget by the legislature exceeded two months the PEFA framework does not permit a higher score than "C" for this dimension. This is despite the fact that in the other two years the State Budget was approved before the start of the relevant fiscal year.

Comparison of 2011 and 2008

The deterioration compared to the 2008 PEFA assessment (dimensions ii and iii) is not systemic; it is attributed primarily to the political instability that affected the preparation process of the 2010 and 2011 Budget. However, the scoring methodology does not capture (and hence does not do justice to) the fact that despite political instability the integrity of the budget process in Moldova has been safeguarded by the high degree of dedication and sense of duty of the MoF and other line ministry and agency staff.

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M2)	B+
Dimension	**Minimum requirements**	
(i) Preparation of multi -year fiscal forecasts and functional allocations.	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained.	B
(ii) Scope and frequency of debt sustainability analysis	DSA for external and domestic debt is undertaken annually.	A
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.	A
(iv) Linkages between investment budgets and forward expenditure estimates.	The majority of important investments are selected 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.	B

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

The MTEF in Moldova was first prepared for the 2003-2005 period and in 2004 it was introduced as a requirement as part of an amendment introduced to the Law on the Budget System and the Budget Process (No.847-XIII originally adopted on the 24th of May 1996).

The process begins each year with the issuance by MoF of the relevant methodological instructions in line with Government Decision N 82 of the 24th of January 2006 (see PI-11). The MTEF submissions are based on the expenditure limits estimated by MoF and communicated to central government agencies and ATUs for the elaboration/update of sector strategies and expenditure estimates. Starting from 2010 the MTEF instructions include an element establishing the baseline estimate separately from new policies in order to distinguish the budgetary impact of new action. This has taken effect in the 2011-2013 and 2012-2014 processes.

In the past, following the Government’s endorsement, the MTEF was submitted to the Parliament for information but as of 2010 it is has been integrated in the documentation that accompanies the draft annual budget submission to Parliament. The standard structure of the MTEF is as follows:

- Section 1 – Introduction;
- Section 2 – Macroeconomic context;
- Section 3 – Tax policy and budget revenues;
- Section 4 – Public expenditure framework;
- Section 5 – Management of the state debt and budgetary balance;
- Section 6 – Overall financial framework.

The MTEF also has 20 annexes covering important elements in detail, including macroeconomic indicators, and individual sector expenditure plans. Annex 19 provides the expenditure ceilings by sectors and central government entities and Annex 20 provides the current and planned government borrowing (deficit financing) programme.

The analysis of the data demonstrated very strong linkages (minimal variance) between 2008-2010 and 2009-2011 MTEFs and 2008 and 2009 annual Budget appropriations respectively, which manifests the credibility in the process. It also shows that the MTEF and annual budget process are properly integrated and part of one unified cycle. Linkages between years 2 and 3 in the MTEFs and actual budget appropriations are also clear and differences are easy to explain. MTEFs include an annex that provides the mandatory expenditure ceilings for year 1 and the forecasted ceilings for years 2 and 3 by functional and administrative classification, recurrent and capital spending, as well as sources of funding (main budget, special funds, special means and donor financed projects).

However, despite these encouraging developments political difficulties have adversely affected the implementation of what is otherwise a robust process.

MTEF 2009-2011 forecasts were endorsed on the 18th of July 2008 but Government formal approval only took place on the 20th of October 2008 by Government Order No. 98-d. This did not appear to inadvertently disrupt the 2009 budget process (see PI-11).

It is noteworthy that in 2009 (2010 budget preparation process) the MoF in collaboration with line ministries and other central government entities managed to safeguard the integrity of the process despite the fact that there was no formal dissemination of the methodological instructions and no formal notification of expenditure ceilings by the Government. The problems cascaded and ultimately the 2010-2012 MTEF and expenditure limits were never formalised. The budget submission and negotiation process was confined to the public servants without involvement from the political leadership. The fact that the 2010 budget was appropriated before the start of the fiscal year and with only a few days delay should be considered a major accomplishment.

Political reasons have also been behind delays in the formal consideration by Government of the 2011-2013 MTEF. Forecasts were adjusted following change in economic circumstances and an updated macro-fiscal framework in September 2010 was transmitted to Government as part of the documentation of the draft 2011 budget. However, the Government did not examine this information. The 2011 Budget Law was adopted more than three months into the fiscal year (see PI-11) and the MTEF was not formalised at the time of the review.

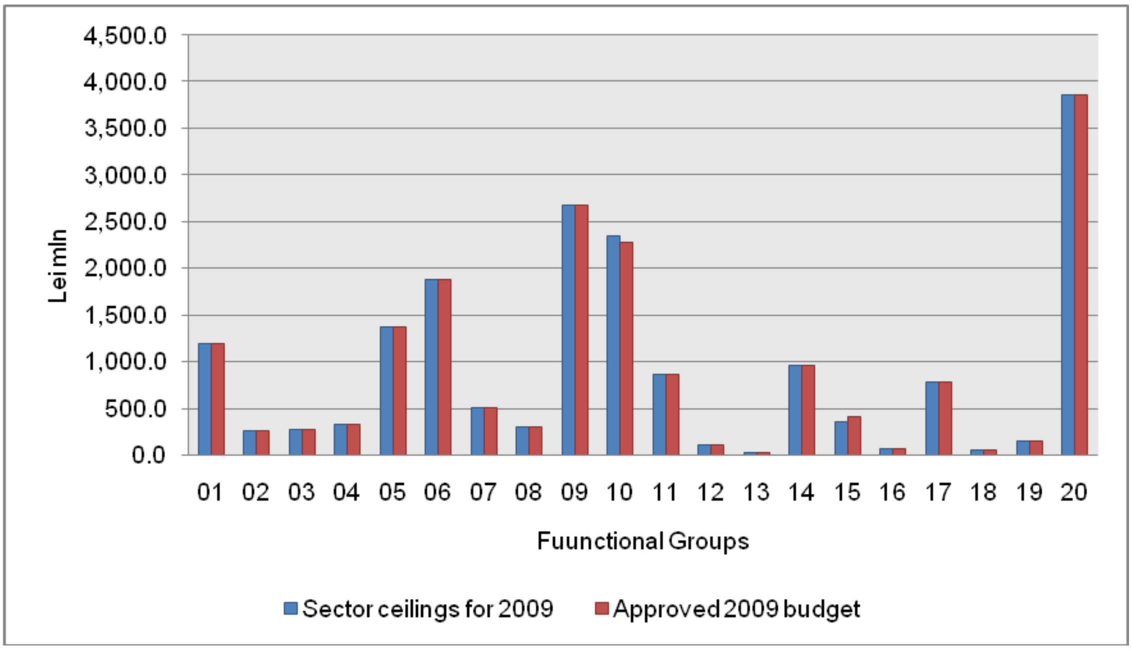
Although the Government did not formally endorse two MTEF documents in the three years under review, the forecasts of fiscal aggregates have been prepared and sector ceilings have been duly communicated and rigorously enforced. This was also confirmed in discussions with line ministries that expressed their overall satisfaction with the MTEF and annual budget process.

The MTEF in Moldova provides the ceilings for the upcoming budget year and forecasts (or forward estimates) for two subsequent years. In addition, the MTEF and annual State Budget law use the same budget headings establishing a clear and transparent link between the MTEF forecasted ceilings and actual budget appropriations. In the period under review by the 2011 PEFA, deviations between the appropriations of the 2008 and 2009 and 2010[32] State Budget laws and the initial expenditure ceilings defined in their respective MTEFs have been smaller than in the past, which marks a clear improvement in the process.

A comparison of the 2009 ceilings included in the MTEF 2009-2011 and the corresponding 2009 State Budget appropriations is shown in Diagram 9 below.

[32] Although the MTEF 2010-2012 was not formally approved the process was conducted in an orderly manner and the MTEF was fully developed.

Diagram 9: Moldova: Deviations between 2009 ceiling included in the MTEF 2009-2011 and 2009 State Budget appropriations



Source: MTEF 2009-2011 and 2009 State Budget Law

(ii) Scope and frequency of debt sustainability analysis

An analysis of Central Government[33] debt can be found in the relevant annual report produced by the General Public Debt Division of the MoF. The analysis includes Central Government debt sustainability indicators used to enable better management of debt issuance and payments, present dynamics for the last two years and detect potential risks.

A draft debt management strategy for 2011-2013 has been prepared which includes a section with an analysis of current Central Government debt performance indicators and forecasts regarding the evolution of internal and external Central Government debt in the next three years.

Actual Central Government debt sustainability analysis is conducted outside the MoF. It is produced annually by representatives of IMF and the World Bank. The National Bank of Moldova has a role in the process (see PI-17).

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

In the approved 2009-2011 MTEF 12 *components* (i.e. annexes 7-18 including sectors and sub-sectors as defined in the functional classification) included proper costing integrating recurrent and investment expenditure within the fiscal framework.

In the draft 2011-2013 MTEF the number of components with expenditure projections based on cost estimates was increased to 14 (education, health care, insurance and social assistance, culture, sports, youth, tourism, justice, the penitentiary system, national defence, agriculture, transport means, environmental protection, science and innovation) doubling coverage since 2008. Therefore, approximately 84% of public expenditures would be estimated to be on the basis of costed sector strategies and consistent with the fiscal framework for 2011 as compared to 74% reported by the 2008 PEFA assessment.

At the stage of drafting the MTEF the preparation of sector strategies by central government entities is coordinated by the Policy, Strategic Planning and External Assistance Division of the State Chancellery. This allows establishing a better linkage between sector strategies, MTEF and measures

[33] Article 2 of the Law on "Public Debt, State Guarantees and On-lending from State Borrowings" defines *Public Debt* as debt of Central Government, National Bank of Moldova, ATUs, public institutions financed in whole or in part from central or local budgets, internal and external borrowings of enterprises where the central government and/or ATU have more than a 50% stake.

envisaged in the Action Plan for the implementation of National Development Strategy.

(iv) Linkages between investment budgets and forward expenditure estimates.

The capital budget and investment programme is put together by the National Economy, Capital Expenditures and Public Procurement Division of the MoF. The General Public Debt Division collaborates closely in the development of the investment programme incorporated in the MTEF and annual budget by keeping track of the external source of financing of capital projects.

Proposals for investment projects are put forward in accordance to the strategic sector priorities in the MTEF and are planned against the medium term fiscal projections. According to the MoF there is an emphasis on making sure that recurrent costs and future liabilities of capital projects are captured and reflected in the MTEF sector expenditure plans.

The MTEF rolls/updates the capital programme. Selection is made giving priority to projects with relatively smaller balances left for completion – the first category of priority concerns projects with more than 70% of works completed. The process is supported through the establishment of a system with criteria for the appraisal and selection of investment proposals and their formal registration. The system has improved linkages with sector strategies and the estimation of relevant recurrent costs. However, there are skill shortages at line ministry and other central government entity level that constrain effective investment decisions and smooth implementation of the project cycle.

Comparison of 2011 and 2008

There have been marginal improvements since the 2008 PEFA that could have been of greater significance if it wasn't for the political problems that have troubled Moldova recently.

Developments in 2011

There are no specific developments in 2011.

3.4 Predictability and control in budget execution

PI-13. Transparency of Taxpayer Obligations and Liabilities

	Score (scoring method M2)	**A**
Dimension	**Minimum requirements**	
(i) Clarity and comprehensiveness of taxpayer obligations and liabilities.	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.	A
(ii) Taxpayers' access to information on tax liabilities and administrative procedures.	Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	A
(iii) Existence and functioning of a tax appeals mechanism.	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.	B

(i) Clarity and comprehensiveness of taxpayer obligations and liabilities.

The main sources of the public revenues in Moldova are taxes, fees and customs duties collected by the State Tax Service (STS) and Customs Service (CS). In addition, social insurance and national health insurance, administered respectively by the SSIF and CIMFA make significant contributions to the state budget. The breakdown of government revenue, including tax revenue, can be seen in Chapter 2.3 "Budgetary and Fiscal Position".

The taxpayers´ obligations and liabilities are stipulated in the following main legal acts:

– Tax Code No. 1163-XIII of the 24th of April 1997.

- Customs Code No. 1149-XIV of the 20th of July 2000 and Law on the Customs Tariff No. 1380-XIII of the 20th of November 1997.
- Contravention Code (approved by the Laws no. 218-XVI din 24.10.2008).
- Criminal Code (approved by the Laws no. 985-XV DIN 18.04.2001).
- Laws on customs tariffs no.1380-XII din 20.11.1997.
- Laws on the state social insurance fund and Laws on the obligatory medical insurance fund[34].

The regulatory framework provides to a high extent the transparency in terms of limiting discretionary powers of the Government entities, as the primary legal acts (laws) define most of the administrative procedures including the obligations of reporting, payments and sanctioning of non-compliance. Yet this may not be a fully adequate measure for meeting the continuous challenges instigated by the gray/black economic activities, and hence IMF envisages that *"major improvements in tax administration remain necessary to help boost revenue, including from the informal economy"*[35].

In addition, the private sector complains about the regulations governing business liquidations. The procedures are onerous, kept in several laws and no comprehensive regulation is published to help the controllers dealing with the complex subject. The lack of transparency and clarity of these procedures may also substantially contribute to an ever increasing number of inactive companies in the State Register.

There is a clear need for a new procedural document that helps improve the liquidation process and increases transparency of company liquidations. We understand that the territorial tax inspection uses less complicated procedures for liquidating business of sole traders (natural persons).

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

Taxpayers have several options available for obtaining relevant information. There are two support call centres. The technical call centre provides assistance with the use of electronic filing facilities, and the second centre assists with responding to tax related questions. All questions and responses are collected in a database with no access restriction and are in principle available to the general public. The STS management considers the technical call centre to be well organised and efficient, and while pointing out its high level of tax competence, the second call centre should be enhanced in terms of organising the work and through improving the communication skills in general and interpretation of legislative acts and regulation in particular.

Both main revenue collection authorities (STS and CS) also organise numerous campaigns of informative nature with selected topics of new or amended legislation, altered procedures and matters of general interest and importance. In addition, the CS publication *"VAMA"* (meaning customs) provides information on legislative updates as well as on forms and procedures relevant for the purpose of customs operations. STS in turn publishes the *"Monitorul Fiscal FISCAL.md"* (the financial gazette), currently on a bi-monthly basis, with the intention to publish a monthly issue from 2012. The gazette informs about the official position on the current tax matters or matters considering the general taxation principles; it also contains contributions from various specialists dealing with tax related subjects. Both publications are available in Romanian and Russian.

The taxpayers´ access to the relevant information is also granted through electronic media, web technology in particular. As a rule all legal texts related to tax and customs are published in the governmental official gazette *"Monitorul Official"*, 4-6 months in advance of coming into the force. This information is also accessible from the Ministry of Justice web site (www.justice.md). This is a good and well structured source of information to taxpayers. For specific information taxpayers and custom traders can avail of the two respective web sites, www.fisc.md (STS) and www.customs.gov.md (CS). Both sites can be accessed in Romanian and Russian and, provide complete and comprehensive

[34] There is a potential issue related to the administration of the obligatory medical insurance fund in the sense that while the CIFMA administers health insurance fund collected from employers and employees (in equal proportion), the company does not have the authority to control and enforce legal persons' contributions (correctness) to the health insurance fund.
During regular checks, this is the duty of the STS to track and audit payments to the National Health Insurance Company. Since this compulsory health insurance system is based on solidarity principle, it in some way impedes introduction of personified registration of insured persons and their contributions, which in principle could lead to the denial of medical services to the insured employee. Considering its largely implementation oriented nature, this issue as such does not affect the score of the presently assessed dimension, however, the wider and implicit impact of the issue should be addressed to prevent the potential denial of medical services to the insured persons.
[35] IMF Country Report No. 11/89, April 2011.

information and allow the downloading of specific forms for various procedures. Access in English is possible but the information available is less detailed.

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

The Tax Code and Customs Code have provisions and procedures for filing appeals, which at the first level are dealt with by the authority itself, but may be referred to the Court in case of disagreement with the decision of the primary instances. The appeal process is further supported and facilitated by the provisions of the Law No. 793-XIV of the 10th of February 2000 on Administrative Procedures.

Related to the Customs, the Supreme Court of Justice issued a Decision No. 4 of 24.12.2010 regarding the practice of examining disputes related to enforcement of the customs legislation in administrative proceedings. This decision is meant to provide clarity to the enforcement of the customs legislation in administrative proceedings.

According to the Ministry of Finance (MoF), the business community assumes that most of the appeal cases are and will be ruled in favour of the state. The Tax Code however provides a measure that, in the case of inconsistency, the legislation should be interpreted in the favour of the taxpayer. Yet, according to the MoF statement, the private sector alleges, that this rule is not working in practice. The statistical data provides a more diversified picture, showing that in the 2010 court appeals for example, approximately 20% of cases were ruled in the favour of taxpayers vs. STS and approximately 30% of cases were ruled in favour of traders vs. CS. The MoF further believes that in terms of value, rather than expressed as a number of won or lost cases, the percentage of appeals decided in favour of taxpayers and traders is significantly higher, since many cases, lost by the authorities, represent the high value public revenue cases. No evidence, however, has been provided to support this argument.

The establishment of a specialised appeals tribunal, independent from the civil courts is being considered. This could contribute substantially to efficiency in general and improve transparency of court judgments, which is also a subject of the ongoing justice reform.

The current initiative to abolish the Economic court, which could have otherwise been tasked with the role of the appeal tribunal, pushes the establishment of an independent appeal institution even higher on the reform agenda.

An initiative to introduce the Tax Mediation institution and process was launched in 2008 by the BIZTAR project[36] as a part of the Business Administration Reform Project. This proposal has been considered by the Government, but was postponed until further notice.

Comparison of 2011 and 2008

Concerning the first dimension, most of the legal acts have been reviewed, revised and partially completed (from the previous draft status) during the years 2008-2010. Inter alia, the Tax Code has been complemented with additional provisions regarding the income tax, excises on tobacco and alcoholic beverages, VAT adjustments for certain agricultural products, road tax adjustments and updating of penalty provisions. Various Government Decisions stipulate the application and enforcement of the fiscal laws and normative acts.

It appears, however, that the 2008 assessment did not consider the issues related to business liquidations.

Related to the Customs, the Supreme Court of Justice issued a Decision No. 4 of 24.12.2010 regarding the practice of examining disputes related to enforcement of the customs legislation in administrative proceedings.

Concerning the second dimension, the web services have constantly been improved and their functionality extended; the authorities continue organizing awareness campaigns and are addressing selected groups of taxpayers. Notably the STS has started publishing its official gazette presenting the official position of the authority on current matters and subjects of principal importance.

[36] The Business Regulatory and Tax Administration Reform Project (USAID|BIZTAR) is working with the Government of Moldova to improve the business enabling environment and in particular to reduce bureaucracy affecting the private sector by streamlining tax administration, curtailing opportunities for corruption, improving access for citizens and businesses to government information, and strengthening the public-private sector dialogue.

Concerning the third dimension, there are no substantial changes, although the process of filing appeals has been made slightly more user friendly. The private sector's perception of the appeals process however is that (im)partiality has not been improved since the 2008 assessment.

Developments in 2011

The MoF is preparing the legislation aiming to allow indirect assessment of individuals' income based on their assets and other indicators available from third party information sources[37]. Initially, the intention is to improve tax compliance of wealthy individuals, and as a medium term objective, to gradually expand the outreach to other groups of taxpayers. The long term objective of this approach is facilitation of the pre-filled tax declaration in line with the current best practice applied by most of the EU countries.

On the Customs side, the 2011 agenda focuses on the general development of the system of transparency framework and communications, so as to improve the institutional dialog with the private sector. Specifically emphasised is the establishment of the simplified customs procedures for compliant traders and reinforced customs control for the non-compliant customs traders.

Finally, on the 14th of July, the Moldovan and Romanian Customs authorities signed the agreement and protocol governing the subject of exchanging the relevant customs information. Herewith Moldova has become the first non-EU country to enter into such an agreement with an EU member state. On September 3, 2011, the agreement became tri-lateral with the Ukraine Customs also signing the protocol.

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

	Score (scoring method M2)	**A**
Dimension	**Minimum requirements**	
(i) Controls in the taxpayer registration system.	Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.	A
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.	A
(iii) Planning and monitoring of tax audit and fraud investigation programmes.	Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.	B

(i) Controls in the taxpayer registration system.

The 2008 assessment already established the compliance of the existing taxpayer registration system which requires mandatory registration of new and re-registration of the existing business entities for obtaining the IDNO (TIN), serving as a unique number for enterprise registration as well as for tax identification.[38] In addition to the general registration, the business entities exceeding the set threshold have to register specifically for the inclusion into the VAT system and separately for trading with excise goods.

Similarly, all natural persons get their unique ID, which is also used for the purpose of taxation in all of its aspects. This encompasses also the non-resident citizens and non-resident stateless persons, who are registered at the moment of filing the application of registration as a taxpayer.

The registration authority (Registration Chamber, www.registru.md) is responsible for registration and updating the taxpayers register on a daily basis[39].

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[37] Letter of Intent, annexed to the IMF Country Report No. 11/89, April 2011.
[38] As pointed out in the 2008 assessment, the tax registration process could be streamlined by removing the need to attend in person the revenue office, issuing the TIN, which completes the company registration process.
[39] Currently comprising approximately 686 thousand entities, of which approximately 101 thousand are legal persons and the remaining part formed by the farmers and individual business entities (entrepreneurs). These figures are indeed not entirely reliable due to the onerous procedures for the liquidation of the legal entities, causing the keeping of inactive entities, as mentioned in PI-13 (i).

With respect to the CS, the customs transactions identify the Moldovan parties by TIN for the purpose of customs clearance and for the payment of duties and taxes. The payment information is exchanged between the CS information system and Treasury as well as with the Banca de Economii. A separate information system is receiving various registration data from the Border Guard Service, however, most of that relates to other, i.e. not directly tax linked registration, such as licenses, import and export quotas permissions, etc., which in turn all operate on the TIN identifier.

Certification of the TIN/IDNO is also mandatory for opening of any bank account in Moldova and trading parties are obliged to present their identification numbers on all commercial documents. The STS web site enables the business community to verify the formal existence of an entity, VAT and Excise registration status, etc. A similar verification is facilitated on the web site of the registration authority (www.registru.md), which also supports the text-based search, if the TIN is not known.

The sub-ordinate VAT registration is an issue, which the STS has been working with since the last assessment. Representing approximately 40% of all tax revenues, VAT for years has been prone to substantial tax evasion, hence the STS management has implemented several measures against the fraud, focusing mainly on the operations of the so called "ghost or phantom enterprises"[40].

In this context the STS has substantially increased the "pre-VAT registration" control activities, utilising, to the extent possible, historical data often disclosing founders of the newly established business entities to be identical with persons previously engaged in fraudulent tax schemes. This measure, combined with increasing of the VAT registration threshold to the currently 600 thousand MDL of annual turnover, has brought about encouraging results summarised in the next table.

Table 15: Decrease in “phantom” companies detected by tax authorities since 2008

Item	2008	2009	2010
Total phantom enterprises, units	200	107	63
Inactive enterprises not paying the VAT, units	42	28	16
Inactive enterprises paying the VAT, units	158	79	47

Source: Ministry of Finance

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

There is a rich variety of tax non-compliance sanctions covering practically all relevant situations, non-exhaustively including the non-filing or late filing of declaration, submission of erroneous information, failure to pay the calculated tax in time, deliberate presentation of forged or erroneous fiscal information, failure to indicate the tax code and other formal and material violations.

All sanctions are anchored in several articles of the Tax Code and the penalties are differentiated according to the provisions of the Article 260 paragraph (1) and Article 261 paragraph (4) as illustrated by the below examples.

Table 16: Examples of applying the tax violation sanctions

Violation	Sanction	Basis	Limitation
Non-filing, late filing.	Penalty of 5% per month.	Calculated tax[41].	30% of calculated tax.
Presenting erroneous information decreasing the taxable base.	30%.	Calculated reduction of the taxable base.	30%, can be reduced by 50%.

[40] These entities engage in the VAT-circus dominated activities, the main asset of which often is trading the false VAT invoices, used by other business entities to increase the value of VAT purchases. In this way the STS has been sharing the experience common to several countries, which are or were marred by the fake invoices boosting the VAT refunds and leaking the budgetary means. Applied adjustments of the VAT registration conditions and procedures, combined with rigid refund measures have been considered a logical act of necessity fighting the fraud.

[41] While acceptable from the formalistic perspective, the efficiency of such arrangement is (arguably) questionable, since the correct value of the not declared revenue can only be established through a.) submission of a correct declaration or b.) comprehensive inspection/audit of the affected area(s) of the taxpayer's business activities. The envisaged improvements of the STS Information Systems, will, if supported by the legal provisions, facilitate and feature automated tax calculation, which could be used for the purpose of establishing the taxable base and consequently for the calculation of fines.

Source: Ministry of Finance

In case of the taxpayer accepting the authority's calculation and providing the fulfilment of specific criteria according to the Tax Code art. 234, the penalty can be reduced by 50%. The tax authority maintains appropriate registers of obligations and actual payments. In case of delays, the system automatically calculates penalties for late payments[42]. Overall, the STS considers the scope and severity of applied sanctions adequate and sufficiently high for stimulating the taxpayers to comply with legislation.

The sanctions applied by the Customs authority are based on article 129 of the Customs Code, stipulating the applicable penalty amounts, while the Chapter X of the same gives provisions for the infringement of customs regulations and liabilities along with stipulation of proceedings for investigation and dealing with infringements. The Customs authority is entitled to recover the unpaid obligations from the traders´ bank accounts and by forced sale of the property belonging to the non compliant trader. In addition, the failure to meet the legal terms of the customs obligations implies the suspension of the right to perform further customs operations by the default trader, until the payment of all customs obligations is duly performed.

On these grounds the authorities and powers of the CS are considered adequate for maintaining well controlled customs regimes and traders´ operations.

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

Since the available resources are insufficient for total and complete taxpayer control, STS concentrates its efforts on the planning and selection of targets for item-specific or comprehensive tax audit.

The main sources for the selection of control targets are the Information Systems maintained by the STS and CS along with the information provided by the State Registration Chamber regarding trading with metal and precious stones. In addition, the CS delivers a weekly update on commercial transactions of imported goods which are subject to monitoring (The Governmental Decision of the Republic of Moldova no. 128 from 28.02.2010 “Regarding the monitoring of the commercial transactions of import and the value chain in the internal trade”).

Apart from the planning and selection, the third and arguably the most important element related to this dimension is an adequately skilled and experienced tax inspection staff tasked with performing the tax compliance control activities in a transparent, objective and fair manner. Combining these three elements the STS statistical data for years 2008 through 2010 summarise the following results:

Table 17: The outcome of STS taxpayer control activities in the period 2008 through 2010

Activity	2008	2009	2010
No. of performed controls, all types.	49,023	63,297	66,875
Additional calculated revenue, thousand of MDL.	201,095.6	449,560.3	497,974.1
Additional calculated revenue, per single control, thousand of MDL.	4.1	7.1	7.4
No. of controls on the basis of documentary verification.	3,779	4,410	4,054
Additional calculated revenue after documentary verification, thousand of MDL.	90,191.0	241,076.0	209,784.0
Additional calculated revenue, per single documentary verification, thousand of MDL.	23.9	54.7	51.7
Efficiency of documentary verification (in %) vs. total additional calculated revenue.	45.0	54.0	42.0

Source: Ministry of Finance

The above table provides a few, but rather clear and significant indications:

- A systematic documentary control appears by far the most efficient control method.
- The number of controls significantly increased from 2008 to 2009, respectively by 29% and 28%.

[42] The penalty for late payment is eventually an interest, calculated as 0,1% per each day of delay.

- The efficiency of the documentary control appears stabilised in 2009 through a relative increase of 167%.
- The overall outcome of the item based and full audit control leave a comfortable space for improvement.

The Customs authority's power to perform the traders´ control is granted by the article 181 of the Customs Code, stipulating the right to check any document, register or evidence referring to the cleared goods or the consequent commercial operations related to these goods. The control can be performed at the premises of the declarant or at the location of any person directly or indirectly related to the business or, at any other premises, where such documents or information are kept. Also, the physical inspection of the goods can be performed, if they still exist.

If, after the desk review or after the post clearance control, it is found that the respective customs regime has been applied on the basis of incorrect or incomplete information, the auditors undertake measures to assess and settle the situation, taking into consideration the newly obtained information, and drafting the necessary documents. In case of additional obligations or exceeding amounts, the required measures are undertaken to collect the payments or to reimburse such exceeding amounts. In case of a contravention, the auditor must inform the section of the Customs frauds or criminal investigation for the application of the infringement sanctions.

In 2008-2010, CS identified the classic suite of potentially existing risks related to the lodging of the customs declaration and focusing on the individual customs transactions. These risk profiles now cover all main customs regimes dealt with by the CS. There was however no available software and methodology for comprehensive risk analysis & assessment based approach for selection of the post clearance audit targets and for monitoring its outcome. Instead, the selection for the post clearance audit is still made by analysing the *operational* information kept in ASYCUDA (World version), a standardised (initially UNCTAD provided) customs Information System, combined with the *manually managed information* obtained from other state authorities or acquired from intelligence sources.

The plan for conducting the post clearance audit is drafted for three months in advance and approved by the management of the head of the Customs house. The plan specifies the complete verification of a period or the thematic control, identifying the possible irregularities, without estimating the economic effect.

In order to settle the legislative problems that were identified throughout the post clearance audit activities, a draft amendment of current legislation was elaborated in 2010 for completing the Customs Code with inclusion of the new Section 29^1 “Post Clearance Audit” that should be included in Chapter V. The draft was sent for examination, and it is understood that the examination is still ongoing.

Comparison of 2011 and 2008

Concerning the first dimension, the most significant result shown in 2011 is the successful dealing with the "ghost or phantom enterprises". To a large extent this has been achieved through the increased VAT registration threshold and by intensifying the "pre-VAT registration" control activities, utilising, as far as available, historical data often disclosing founders of the newly established business entities to be identical with persons previously engaged in fraudulent tax schemes. The assessed value of the revenue "salvaged" this way in the period 2009 - 2010 is impressive and indicates a decrease of approximately 3 billion MDL in revenue losses when comparing 2010 with 2008.

Concerning the second dimension, there are no substantially new aspects observed, the authorities concerned are however convinced that the current sanctions are sufficiently harsh and high enough to stimulate the taxpayers and customs traders to comply with legislation.

Concerning the third dimension, (also relevant to the first), the work performed since 2008 shows an increase in output. This is in particularly valid for the Tax related aspects, where the results are largely generated by the systematic analysis of information with significant contributions from the recent risk assessment oriented initiatives, such as:

- Identification of new risk criteria, facilitating more efficiently the selection of (groups of) taxpayers with a high(er) risk of tax evasion.
- Establishment of new approach towards the information analysis, facilitating the rapid detection of the economic agents with a high risk degree of tax evasion (for example, the

examination of the declaration during its lodging, rather than just entering the data into the system for a later assessment and potential control treatment).

- Establishment of a comprehensive risk compliance model, facilitating the assignment and focus of critical resources to the groups of the non-compliant taxpayers, while treating the compliant ones with the increased level of taxpayer services.
- Establishment of new measures for improving the cooperation between the STS and other enforcement agencies.

While the aggregated revenue collection trends are positive, the trend in the revenue composition still causes concerns showing relative decrease of the tax proportion and substantial increase of the punitive amounts proportion. This view is supported by analysis made (by and for the private sector) on the basis of the published MoF reports on execution of state budget for years 2007 through 2010. The aggravation of the business entities is summarised in the view that the revenue authority tends to compensate the missing tax revenue of CIT (currently suspended) with "fines and penalty hunting". In reaction to this the Government abolished controversial rules[43] for details of primary documents and consequently the curve of fines and penalties proportion, has been since showing a much less steep increase.

Within the same period the Customs authorities have significantly improved almost all of their main activities; not least by the establishment of comprehensive Customs related risk parameters now covering all applicable regimes except Transit. However, the applied risk profiles are largely directed to the customs transaction in terms of goods and border protection parameters, and as such these may not be directly useful for the purpose of selecting the traders for the post clearance audit.

In 2010 a draft of the new section of the Customs Code (Section 29¹ "Post Clearance Audit") was to be included in Chapter V of the Customs Code with the purpose of resolving the identified legislative issues. Although internally approved by the CS and endorsed by the MoF, this draft is currently still under examination, mainly due to some reservations indicated by the Ministry of Economy.

Considering the relatively undeveloped area of the Customs post clearance audit, this adversely affects the joint score for this dimension.

Developments in 2011

On the Customs side the main development for 2011 focuses on:

- Operational implementation of the post clearance audit. Awaiting *de iure* endorsement, this procedure has been put in operations *de facto*.
- Introduction of simplified procedures[44] for selected entrusted traders; and
- Implementation of the tri-lateral customs information exchange agreement[45].

Since the new procedures all relate to the risk analysis and assessment, the CS has started to implement the operational compendium aiming at standardising the work and thereby further narrowing the space for subjective judgement and impact.

Finally, the Customs authority is considering the possibility of implementing a version of the Russian computerised Transit information system, which is known to be very similar to the EU New Computerised Transit System (NCTS). Provided a budget is available, this activity may be launched next year.

On the Tax side, the scope of the 2011 initiative is wider; however, the main focus remains with the building of internal capacity needed for implementing the Taxpayer Compliance Programme[46] in the operational environment. For this purpose the STS has identified the most critical areas, where urgent response is required for maintaining the momentum created in late 2010 and the first half of 2011. In particular a mention is made of conducted and planned study visits to selected EU countries with the

[43] Government order No. 434 of 15 July 20009.

[44] Simplified Customs procedures were introduced by Order 214 of 1st August 2011, and qualification criteria have been published in the relevant official media. Applicable to currently only 2 traders, CS intends expanding this regime by mid 2012 to cover up to 20% of all declarations.

[45] This protocol embraces Moldova, Romania and Ukraine. Initially bilateral (Moldova and Romania, of 14 July 2011) the trilateral agreement was signed on 3rd September 2011.

[46] The IMF mission in June 2011 formally approved the STS taxpayer compliance programme, and the STS management has initiated relevant follow-up activities for implementing the programme objectives into the daily operational work.

aim of obtaining the knowledge and practical skills of putting the launched compliance programme into operation.

The critically needed improvement of professional skills of the STS inspection staff is envisaged to be provided through similar study visits and through dedicated training in accounting skills and capacity building in analysing financial data and in particular interpreting the financial balance sheet key indicators.

One of the top priorities of the STS 2011-2015 Development Programme is the definition of the future Integrated Tax Information System (ITIS). During the first half of 2011, the ITIS concept has been outlined in a feasibility study. It is envisaged that by the end of 2011 the feasibility study will be complemented by a comprehensive catalogue of detailed functional, technical and administrative requirements, together they will form the central part of the bidding documents with the view to initiate the ITIS acquisition process in 2012.

Finally, the STS management is preparing a conceptual and methodological approach to be applied in future dealings with wealthy individual taxpayers. This initiative is supported by the latest legislative amendments (see also PI-13) meant to facilitate the collection and use of third party information for the purpose of an indirect method of establishing the taxable base of any given taxpayer.

PI-15. Effectiveness in collection of tax payments

	Score (scoring method M1)	**D+**
Dimension	**Minimum requirements**	
(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).	The average debt collection ratio in the two most recent fiscal years was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	D
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	A
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.	B

(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).

Collection of arrears remains a serious concern of the STS. Moldova, exposed to the globally negative impact of the economic development in 2008-2010, experienced in 2009 a drop of the total revenue collection of approximately 280 million MDL, while at the same time observing a steady increase of arrears. In 2009 they have increased by approximately 10% (compared with 2008) and further by 18.4% at the end of 2010 when compared with 2009.

In general terms, since the 2008 PEFA assessment revenue collection has increased by approximately 6% (2008 vs. 2010) and the stock of arrears within the same period has increased by approximately 30%. At the end of 2010 total arrears represented 7.5% of collected revenues as compared with 4.1% in 2008. The nominal value of 1,050.3 million MDL needs to be considered with the view of the tax amnesty, which resulted in writing-off a tax debt of totally 308.6 million MDL.

The next table shows the development of arrears in the period 2008-2010 in terms of arrears stock and arrears collection ratio.

Table 18: Collection ratio of tax arrears 2008-2010 (in million Lei)

Budget	Tax arrears FY 2008			Tax arrears FY 2009			Tax arrears FY 2010		
	At the start of FY	Collected during the FY	Collection ratio	At the start of FY	Collected during the FY	Collection ratio	At the start of FY	Collected during the FY	Collection ratio
State Budget	206,70	151,88	73,5%	137,70	63,14	45,9%	266,9	87,9	32,9%

Local authorities / Administrative Territorial Units budgets	139,80	66,70	47,7%	129,70	57,35	44,2%	153,9	59,5	38,7%
State Social Insurance Fund	457,90	350,78	76,6%	615,70	424,71	69,0%	618,9	404,6	65,4%
Compulsory Insurance Funds for Medical Assistance	2,10	1,53	73,0%	3,90	1,97	50,6%	10,6	5,5	52,3%
TOTAL	806,50	570,90	70,8%	887,00	547,18	61,7%	1050,3	557,6	53,1%

Source: Ministry of Finance and State Tax Service

Currently, the tax debt management in general and arrears recovery in particular is extremely difficult, because the STS computerised records do not provide analytical data (break-down according to the tax type, period/age) as required by the Tax Code article 179 (Chapter V), but rather represent the aggregated arrears value per taxpayer.

Focusing on efficient use of resources available for the purpose, IMF has recommended to suspend (for later collection or write-off) the collection of small and aged arrear amounts, so as to focus on a) collecting substantial and recent arrears, and b) introducing preventative measures to avoid increases in new arrears and providing reasonable debt protection

Despite the mentioned shortcomings in the IT system, STS has made some progress. This however is not enough to curtail the increasing trend in the stock of arrears. In order to enhance taxpayer compliance, the emphasis has been on improving collection of tax arrears based on a system that identifies risks in terms of new debt.

The arrears considered recoverable are continuously monitored and the following preventive measures are currently undertaken by STS:

- Warnings of taxpayers (by phone, letter, etc.).
- Publication on the official STS portal, www.fisc.md, of the debtors.
- Debt securing measures: calculating penalty, the application of legal mortgage, the suspension of operations of the bank account.
- For taxpayers, who do not comply with preventive measures, the approach is:
- Advance collection provisions for the bank accounts.
- Receipt of funds at taxpayer cashier.
- Tracking debts.
- Seizure of goods for forced sale.

On the Customs side, the payments of the import-export customs duties, performed at the time of clearance, minimise the possibility of the Customs related arrears. However, there are debts created resulting from the post clearance audit, for which penalties are continuously accrued. The historical arrears represent 46.4 % from the total arrear amount in 2008, 16.2% in 2009 and 8.7% in 2010.

In 2008, the arrears amounted to 237.0 million MDL, in 2009 and 2010 arrears decreased considerably, to 106.0 million MDL and 103.0 million MDL respectively, representing only 1.4% and 1.1% of customs duties and taxes in the last two years. According to the Regulations on customs duties extinction by decree (for arrears older than 6 years), in 2008 the amount of 0.1 million MDL was written off. In 2009 the amount came to 123.0 million MDL and in 2010 14.0 million MDL.

Due to the fact that the rate of debt collection by the CS in the last year was not less than 90%, the total amount of arrears is almost insignificant (i.e. less than 2% of total annual revenue collections).

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

Consistent with the 2008 assessment, the MoF informs that all payment of taxes and customs duties are made directly to bank into the Treasury Single Account (TSA).

The above mentioned Feasibility Study has however also disclosed an issue of a largely technical nature, indicating that a substantial number of bank payments are not identifiable due to unrecognised payer, unknown liability, and most often incorrect specification of the receiver (account).[47]

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

Similarly, the reconciliation of revenues between the tax authorities and State Treasury (ST), Customs authority and ST on revenues is performed daily, monthly and annually at central and territorial level, albeit the reconciliation is limited to taxes collected and not taking into account the tax assessments. This dimension of reconciliation could be beneficial for the purpose of the revenue forecasting as well as short term cash flow management.

Currently the STS provides the revenue forecasts weekly, monthly, quarterly and annually. Treasury further requires that the new information system will provide enhanced tax revenue forecasting and information relevant to the cash flow management in line with new budget classification.

Comparison of 2011 and 2008

Concerning the first dimension, the most significant STS result shown in 2011 relates to the mentioned preventive measures, aiming at dealing with the serious arrears collection issue, while awaiting the advent of the new computerised application, currently being developed and tested by the BIZTAR project under the US Aid programme. This component will facilitate the creation and maintenance of the taxpayer current account and has been designed according the state of the art "Taxpayer per Tax type per Tax period (TTT) principle", which will enable the maintenance of the required analytical data.

At the same time the CS has managed to reduce the arrears substantially, in 2010 almost reaching the level of insignificance and thereby affecting positively the consolidated assessment of this dimension.

Concerning the second dimension, there are no significant new aspects observed, yet substantial number of error-hit payments are noted. As this is largely a technical issue, it does not affect the score, but should be attended as a high priority task.

Concerning the third dimension, similarly the 2008 assessment did not detect or consider the limitation of reconciliation, which does not take into account the assessments, but rather deals exclusively with the payments. On these grounds the previous score cannot be maintained.

Developments in 2011

The Taxpayer Current Account application is presently being tested and it is expected that this component will be put into operation by the end of 2011 or early in 2012. This is considered a huge step in the right direction, as it will enable the implementation of most of the recommendations issued by various advisory missions, IMF in particular. In addition the Taxpayer Current Account concept will be included in the ITIS design.

Related to the tax debt management subject, the STS staff has recently made a study visit to the Irish Revenue authority.

The UNDP EUHLPAM project continues to support the STS and following the recently completed feasibility study, the project team, until the end of 2011, will scrutinise all main business processes and prepare a comprehensive requirement catalogue for the purpose of ITIS.

Medium term, ITIS will facilitate automation of the payment process controls, so as to reduce significantly the amount of the error-hit transactions, representing a technical issue of the above assessed dimension (ii). Depending on the net-effect of this shortcoming, an intermediate solution

[47] Source: EUHLPAM (00073877) ITIS Feasibility Study, latest draft version, Peter Menhard, Marcel Chistruga, Iurie Brinister: "In 2010 6,8% equal to approximately 362.500 of all payment transactions, representing totally 0,9% (82,5 millions MDL) were not directly identifiable. 95% of these payments relate indeed to the special local taxes lodged on a separate suspense account. All the remaining unidentifiable transactions are referred to the STS. The non-confirmed (unidentified) payments of legal entities are returned to the payers. Currently, the banks are responsible for accuracy of information accompanying Treasury payments, however no primary matching/error system is in place apart from the physical check at the counter. Introduction of electronic cross-reference on tax payments (taxpayer, tax type, tax period) might help strongly to reduce such kind of errors and optimise the revenue collection process both on Treasury and STS side."

could be provided, however, for this purpose a business case and a basic RoI analysis would have to be prepared.

This should be seen in parallel with the upcoming completion of the new PFM IS for the MoF. Undoubtedly, the envisaged exchange of all vital data between the two systems (new PFM and ITIS) will enable and facilitate (in the medium term) the reconciliation elements currently not addressed under the third dimension.

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

	Score (scoring method M1)	C+
Dimension	**Minimum requirements**	
(i) Extent to which cash flows are forecast and monitored.	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.	A
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	MDAs are provided reliable information for one or two months in advance.	C
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	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.	A

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

The Government forecasts cash flow for the purpose of planning budget execution based on the estimated revenues, which determines the aggregate expenditure level. When the State Budget is approved by Parliament, the line ministries (and other central government entities) and local governments (ATUs – administrative territorial units) are inform of their budget ceilings and on that basis all institutions prepare annual and monthly financial plans. These plans are consolidated by the line ministries and forwarded to the MoF where the Treasury enters them into the existing financial management system operated by Treasury[48] –. The MoF furthermore estimates the monthly funding requirements (and hence expenditure limits) for the ATUs as well as required transfers to the State Social Insurance Fund and the Mandatory Health Insurance Fund. Central government entities are required to submit monthly financial plans (which however are not cash flow plans). These are not forecasts, but requests for monthly spending quotas. This means that the aggregate expenditure forecast produced by the Treasury may to some extent be incomplete or not fully accurate.

The Treasury uses the financial plans and estimated funding requirements received by central government entities together with the revenue forecasts from the State Tax Inspectorate and the Customs Service to prepare a cash flow forecast for the upcoming fiscal year. In this process the Treasury also takes into account historical revenue and expenditure trends so as to assess whether the consolidated financial plans and expenditure (cash flow) patterns correspond with earlier years. This enables the Treasury to produce a regular overall cash flow forecast for the fiscal year.

The Treasury (Cash Flow Management Unit) prepares weekly aggregate cash forecasts which are in effect updated daily as soon as there is a change in circumstances. The team was given access to the cash forecasting system by Treasury and was able to confirm the fact that actual cash inflows and outflows are indeed systematically updated.

It is noted that cash flow forecasts may not always be accurate for two fundamental reasons. The first has to do with the absence of a dedicated commitment registration and management system inevitably resulting in discrepancies between financial plans of line ministries and other central government entities and cash flow projections. The second is the result of liquidity shortages due to the adverse fiscal circumstances which force Treasury to enforce a cash rationing process (see PI-17). A Liquidity Committee (comprising representatives from the MoF, National Bank, SSIF and CIFMA) has been in existence since November 2006.

[48] As noted in the analysis of other PIs there is an FMIS under development expected to integrate existing stand alone modules by 2013.

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

Annual financial plans prepared by central government entities encompass separately all subordinate units and are broken down by monthly cash plans based on clear in-year expenditure plans for the fiscal year. These plans enable entities to plan and commit expenditures for the full fiscal year in accordance with their appropriations. However, when cash shortages arise – which seems to have been the case somewhat frequently in recent years – this information is not systematically communicated to spending units. In such situations, the MoF prioritises non-discretionary spending in a transparent manner with debt/interest payments, salaries and pensions, scholarships and energy payments are given priority.

Cash flow problems in the period under review have happened primarily due to the shortfalls in revenue collection (see PI-3) rather than a failure in financial and cash flow planning/management. It should be noted however that these cash flow disruptions (due to revenue shortfalls) do not appear to have resulted so far in the generation of arrears. Another problem for the operation of a cash management system would be the absence of a dedicated commitment management system (see PI-20).

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

Adjustments to budget allocations, which are beyond the *virement rules,* are specified in the Law on the Budgetary System and the Budgetary Process (No. 847 XIII of the 24th of May 1996 with later amendments), specifically Article 41 (*Rectification* of the State Budget) and Article 42 (Additional appropriations in cases of *rectification* of the State Budget).

In the case of a major revenue shortfall, as in case of the 2009 fiscal year, the MoF will ration cash and withhold discretionary expenditure (prioritisation in these cases happens as discussed in the dimension above). Changes in the budgetary allocations have always received Parliamentary approval through a revision in appropriations. In the period under review by this PEFA assessment these have been as follows:

- 2008 – Twice, (1) Law No 149-XVI of the 3rd of July 2008 “On introducing amendments and additions to the Law on 2008 State Budget”; (2) Law No 288-XVI of the 19th of December 2008 “On introducing amendments and additions to the Law on 2008 State Budget”.
- 2009 – Once, Law No 82-XVII of the 3rd of December 2009 “On introducing amendments and additions to the Law on 2009 State Budget”.
- 2010 – Three times (1) Law No 130 of the 30th of June 2010 “On introducing amendments and additions to the Law on 2010 State Budget”; (2) Law No 192 of the 15th of July 2010 “On introducing amendments to the Annex 2 of the Law on 2010 State Budget”; (3) Law No 244 of the 1st of October 2010 “On Introducing amendments and additions to several laws”.

Comparison of 2011 and 2008

There has been a marked improvement in aggregate cash flow forecasting since the 2008 PEFA assessment reflected in dimension (i). This can be attributed to an increase in capacity in the Treasury.

Developments in 2011

It is noted that budgetary entities currently register contracts (but not payment orders), including payment plans, with the Treasury. The new planned FMIS, which was originally intended to become operational in 2013, is expected to include a commitment module, which should enable financial commitment data to be entered by the spending units for the month when the expenditure incurred will have to be paid, and cash would then be reserved (see also PI-20). When this is put in force it would undoubtedly contribute to the improvement of dimension (ii).

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

	Score (scoring method M2)	A
Dimension	**Minimum requirements**	
(i) Quality of debt data recording and reporting.	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly	A
(ii) Extent of consolidation of the government's cash balances.	All cash balances are calculated daily and consolidated.	A
(iii) Systems for contracting loans and issuance of guarantees.	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.	A

(i) Quality of debt data recording and reporting.

The legal basis for borrowing of the State is set out by the Law on Public Debt, State Guarantees and On-lending from State Borrowings no. 419 from the 22nd of December 2006 (hereinafter: PDL) and secondary legislation regulating its implementation[49].

The Public Debt Department in the MoF is responsible for management of and reporting on the State debt. The Debt Management Financial Analysis System (DMFAS) version 5.3 from UNCTAD is used for monitoring, settlement and accounting of the foreign debt, whereas accounting and settlement of the domestic State debt is carried out with in-house software (since DMFAS is not adequate for the purpose) and data is periodically migrated into DMFAS for reporting. On-lending is managed as well with an in-house developed software tool.

Public debt reporting and monitoring is based on reports that the MoF receives from other entities as regulated in article 9 of the PDL. The Ministry of Economy and the National Bank of Moldova (NBM) as well as other central and local level public authorities are to provide input to the MoF for the preparation of forecasts. Beneficiaries of on-lending (public enterprises with State or ATU majority) have to submit quarterly reports used by the MoF to monitor its exposure, disbursements and debt service.

Reconciliation of domestic and foreign State debt is carried out on a monthly basis. Data of MoF in DMFAS is reconciled with invoices submitted to MoF by creditors. At the end of the month, after payments are made, MoF receives statements of accounts from creditors for reconciliation and confirmation of outstanding/ balance debt

A detailed report, which includes information on state guarantees and on-lending, is prepared on quarterly and annual basis and published on the MoF website. This Report contains a debt stock analysis, data on debt servicing and sources for debt financing. The Quarterly Report contains comparative figures, but no risk analysis, whereas the Annual Report additionally includes trends in macro-economic indicators, debt sustainability indicators and contingent risks (market risk, liquidity risk, credit risk and operational risks) without however identifying mitigation strategies. IMF's Special Data Dissemination Standard (SDDS) Reporting is used for reporting.

Complete records of the domestic debt are also maintained by the NBM, given its function as fiscal agent for the execution of auctions of Government Bonds. See also sub-dimension (iii). The Monthly Bulletin of the NBM contains information about the still existing Government bonds in its portfolio.[50]

[49] "On some measures of executing the Law no. 419-XVI from 22 December 2206 on public debt, state guarantees and on-lending from state borrowings" (Government Decision no. 1136 from 18 October 2007)
[50] Stemming from a conversion into bonds of the State debt accumulated in the period 1992 to 2000.

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

The development of the Treasury Single Account (TSA) system was carried out progressively starting in 1993. Initially, the 38 Territorial Treasuries (TTs), SSIF and CIFMA maintained accounts of budget institutions in commercial banks. Since the 1st of March 2007 all budgets, including the whole local level as well as SSIF and CIFMA, are executed via the TSA. SSIF and CIFMA budgets are processed using a specialised Treasury client software for submission of payment orders to the State Treasury.

All revenue is thus collected on the TSA and all payments are executed from there. The TSA is held in the NBM. Since the 1st of January 2008 all accounts of in commercial banks have been closed (exceptions described below).

While in 2006 still 85% of the budget funds were maintained in commercial banks and 15 % in NBM, the situation has turned around: In 2010, 84% of the budget funds are maintained in NBM and 16% in commercial banks (for donor funded projects, Moldovan Republic embassies and the Customs Service).

The structure of the TSA reflects the structure of the budget:

- one MDL account with 188 sub-accounts (for TTs, SSIF and CIFMA);
- seven FX accounts for channelling foreign exchange payments and receipts of budget institutions.

Every TT has three accounts within the TSA corresponding to the budget components: one for the State Budget - main component; one for the State Budget - special means and special funds; and for the ATU budget.

The State Treasury has, like all domestic commercial banks, a real-time participant's access in the Interbank Payment System operated by the NBM for executing all domestic payment transactions directly in the real-time. The State Treasury has thus real-time access to the consolidated cash position on the TSA. Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF on a daily basis.

Aside of this, a number of accounts is maintained in the State owned Banca de Economii for cash operation and projects funded from external sources. All bank accounts are reconciled on a daily basis by the institution holding the account, and on a quarterly basis by the MoF.

Although there were no significant changes since the 2008, the inadequate score assigned in the 2008 assessment is herewith corrected, taking into account that, already in 2008, the TSA system was fully operational.

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

Contracting of loans and issuance of state guarantees is regulated by the PDL.

Article 3 of the PDL identifies the MoF as contractor for domestic and foreign loans on behalf of the Government and explicitly overrides this possibility for any other central public authority. The same holds for the issuance of state guarantees to domestic or foreign parties.

According to article 6 of the PDL, the ceiling for the state debt, both domestic and foreign, as well as the ceiling for state guarantees is established by the Annual State Budget Law.

Domestic debt:

Domestic borrowing is regulated by article 13 to 18 of the PDL. The two instruments for domestic borrowing of the State are Government securities traded in weekly auctions organised by the NBM which can be purchased by selected commercial banks: (i) medium-term Government bonds with a maturity of one or two years, and (ii) Short-term Treasury bills with different maturities up to one year.

Foreign debt:

Contracting of foreign loans is regulated by article 19 to 22 of the PDL. Decisions on foreign loans have to be adopted by the Parliament.

Local level:

The PDL only regulates contracting of loans and issuance of guarantees by the State, whereas borrowing by ATUs is regulated by the Law on Local Public Finances (no.397-XV of the 16th of October 2003, with amendments) in article 13 to 16. The contribution of the ATUs' debt to the public debt is under 1%. It is however worthwhile mentioning that regulations for local borrowing foresee that debt may not exceed 20% of the annual budget revenue for capital investments and 5% of the annual budget revenue for current expenditure. Loans have to be approved by the respective local council. Level-2 ATUs may contract short term loans from the State budget by request to the MoF According to the Law on Local Public Finances; Level-2 ATUs may issue municipal bonds[51] and guarantees to municipal enterprises.

On-lending:

A more popular instrument than loans from commercial banks is on-lending to ATUs of loans contracted by the State from IFIs.[52] On-lending is only available to ATUs of Level 2, but Level-1 ATUs can borrow through their parent Level-2 ATU. On-lending is regulated by article 23 to 26 of the PDL.

State guarantees:

Articles 27 to 35 of the PDL regulate the issuance of guarantees by the State. This instrument was used until 1999, but due to the restrictive requirements of the PDL it was is not used anymore thereafter. According to the 2010 Annual Debt Report only one single beneficiary of a State Guarantee exists, with an exposure of USD 6.4 million.

Debt management strategy:

The MoF has elaborated in coordination with the NBM and with support from the World Bank and the IMF, a Draft Strategy for Debt Management for the Period 2011-2013 which includes a fiscal risk analysis and indicators for risk monitoring. This strategy identifies priority activities of the MoF orientated at the sustainability of State budget financing on medium and long term and attracting funds for funding sector priorities. It also provides for alternative scenarios for the development of the state debt portfolio and contingent risks in accordance with market changes in interest or exchange rates. This strategy is published on the MoF website. It was updated in 2011 in accordance with the macroeconomic conditions and has been adopted in July 2011.

Comparison of 2011 and 2008

The main progress consists in the elaboration of a medium term debt management strategy. This, together with the correction of the 2008 scoring on sub-dimension (ii), justifies an overall score of A.

Developments in 2011

There are no current developments in this area.

PI-18. Effectiveness of payroll controls

	Score (scoring method M1)	**B+**
Dimension	**Minimum requirements**	
(i) Degree of integration and reconciliation between personnel and payroll data.	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.	B
(ii) Timeliness of changes to personnel records and the payroll.	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).	A
(iii) Internal controls of changes to personnel records and the payroll.	Authority and basis for changes to personnel records and the payroll are clear.	B
(iv) Existence of payroll audits to identify control weaknesses and/or	A payroll audit covering all central government entities has been conducted at least once in the last three	B

[51] .e.g. Chișinău Municipality has issued a guarantee in 2010 for a foreign loan from EBRD to the State enterprise Regia Transport Electric
[52] Such on-lending facilities are available through loans from EBRD, WB and CEB (Council of Europe Development Bank) for investments in the energy sector, construction and sewerage. Another instrument for on-lending is managed by the Credit Line Directorate of the MoF providing on-lending of externals funds (State external loans) to the real sector through commercial banks.

ghost workers.	years (whether in stages or as one single exercise).	

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

The administration of personnel data and salaries of civil servants is organized in the following way:

- Personnel records are kept in the employing institutions, i.e. down to the level of service delivery units (schools, primary health care centres, kindergartens, cultural institutions, libraries)
- Salary calculation is carried out at the Finance Department[53] of the parent budget institution, i.e. in case of service delivery units: in the Level-1 ATU (*primaria*) or central public authority, based on the evidence collected by the employing institution and on current legislation
- Salary processing is carried out in the Territorial Treasuries (TTs) through the Treasury System in the same way as any other expenditure, based on payment orders submitted by the parent budget institution.
- Monitoring of the number of employees and salary expenditure is carried out by the MoF.

Integration between personnel and payroll data is achieved through several mechanisms.

On personnel record-keeping:

The employing institution maintains personnel files containing all relevant information (appointment, qualifications, function changes, etc.) and collects on a monthly basis time sheets evidencing actual working time.

On salary calculation:

Time sheets are submitted by the employing institution to the Finance Department of the parent institution, where salaries are calculated on a monthly basis based on the on the employee's activity and status, in accordance with the Law on the Payroll System in the Public Sector (No. 355 of the 23rd of December 2005, as amended) and related secondary legislation. Software is generally used for salary calculation. In smaller institutions, the competence for salary calculation is low, since application of the Law is complex, and when legal changes are introduced, their proper application often lags behind.

On salary processing:

Payment orders for salaries are issued on monthly basis by the responsible budget institution to the TTs, together with an explanation of the composition of the salary amounts and the total number of employees. The TTs do not receive further information and only verify if allocation is available according to the financial plans. There is no centralized IT system for payroll processing.

On the monitoring:

See sub-dimension (iii). Main discrepancies found relate to some institutions that had to decrease personnel (e.g. in the frame of education reform) and failed to do so.

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

On annual basis:

Each central and local budget institution has to establish an employment scheme on annual basis within the limits prescribed by the Government. These limits are communicated by Government Decision to the central public authorities and by Local Council Decision to the local authorities. Any in-year modification to this scheme has to be formally adopted by a Government Decision

In-year:

Changes to personnel records (e.g. appointments, allowances, vacations) are made practically immediately (within three days) and have to be approved by the head of the institution. Since salaries are calculated every month based on the evidence in the monthly time sheet and on current legislation, changes are taken into account as they occur.

According to the inspection reports issued by the Financial Control and Revision Service (FCRS), a

[53] Chief accountant in ATUs of Level 1 that do not have a Finance Department.

small number of irregularities with very small pecuniary implications results mostly from to the low level of skills in smaller municipalities (late information about new regulations or wrong interpretation). See sub-dimension (iv).

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

On the level of salary calculation:

Internal ex-ante control is based on the *four eyes* principle, stipulating that every transaction with a financial implication requires two signatures: by the head of the institution and by the chief accountant. Internal control procedures within budget institutions are stringent, and the highly bureaucratic system of HR administration leaves little opportunities for irregularities.

Figures on salary calculation made in Level-1 ATUs (*primarie*) are checked in the parent Level-2 ATU (*rayon*) Finance Directorate whether they are in line with the norms and regulations. In case of concerns, the *rayon* carries out an on-site check at the *primaria*.

On the level of the employing institution:

When recruiting employees the institutions have to comply with the limits for the number of employees as approved for the current budget year and with other internal acts issued by the head of the institution. Evidence on work carried out is provided by the time sheets to be completed monthly by every employee and providing the basis for the salary calculation.

However, no internal ex-ante control procedures are in place in budget institutions (ATU Level 1 and 2) for carrying out controls, such as physical head-counts and on-the-spot checks, in the subordinated tertiary budget institutions (such as schools). Issues in those budget institutions are not limited to primary school teachers, and the amount of irregularities is higher in small rural entities. This results from lack of competence and lack of personnel to carry out control. The parent institutions, that also lack staff, rely on the FCRS ex-post inspection.

On the monitoring level:

An additional layer of control was introduced by the above mentioned system of reporting to the MoF. Based on macroeconomic developments and policy, the MoF establishes an annual limit for salary expenditure as well as a limit for the total number of employees, on the central level and in the ATUs, whereby every budget institution sets the limits for its subordinated institutions.

Starting in 2010, these indicators are adopted in the frame of the annual State Budget Law and communicated to the central level authorities and the ATUs by Government Decision.

Since 2009, all institutions report on a monthly basis to the Department for Public Sector Personnel Spending Monitoring and Analysis in the MoF through the „Operational Report on the number of employees in budget institutions[54]" and information that they register in a database[55]. Line ministries and ATUs prepare aggregated reports, which include their subordinated institutions, on the following data:

- the number of employees and corresponding expenditure approved for the budget year
- the effective number of employees and the respective expenditure executed in the reporting period

Reports are produced on paper base and signed by the heads of the institutions. In case of irregularities, the MoF informs the corresponding institution and the Government. The Government then issues a Decision requiring the responsible line ministry to take measures.

In the past, there have been issues in some institutions relating to the failure to decrease the number personnel as stipulated.

The Department for Public Sector Personnel Spending Monitoring and Analysis controls the reports against the annual budget law, extracts personnel costs from the Treasury FMIS (For details on the FMIS please refer to Section 2.4) and analyzes them to determine the average overhead expenditure per employee, and registers the annually established employment schemes per central and local

[54] Raportul operativ privind numărul angajaţilor în sectorul bugetar (Report no. 8)
[55] "FINTECHINFORM database" provided by the IT state enterprise with this name

institution.

The MoF consolidates the mentioned report on a monthly basis and submits it to the Government and to the IMF. Summarily it can be said that, in spite of the clarity of regulations for changes to personnel records and payroll, the absence of ex-ante controls at the local level results in the lack of a clear audit trail.

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

Larger institutions are subject to external audit by the Court of Accounts who audits payroll as part of the annual (or bi-annual) regularity audit. These institutions also have recently established internal audit units which assess weaknesses of the internal controls system. Smaller institutions are subject to external audit by the FCRS who audits the payroll within the annual (or bi-annual) inspection. There are no internal audit units at the local level yet (except for Chisinau municipality), and the FCRS focuses on identifying irregularities but does not carry out system audits.

Due to the rigid and highly bureaucratic system of recruitment, frauds (such as ghost workers) occur very rarely. Cases of employees receiving salary, but residing abroad, are detected in cooperation with the Border Service. Main irregularities consist in improper application of the highly complex salary calculation and accumulation of positions. These frauds or irregularities have a very low pecuniary implication (less than 1%, but increasing). According to legislation, funds paid by error can practically not be claimed back.

According to the FCRS, the main issues in salary calculation occur in smaller municipalities relating to the subordinated service delivery units and consist in irregularities in the following areas:

- Salaries of directors and vice-directors
- Coefficient calculation
- Doubling of holidays
- Higher number of employees that prescribed
- Accumulation of functions

According to CoA reports, the main reasons for irregularities are ambiguous legislation on salary calculation and low skills of accountants in smaller municipalities regarding changes in legislation, resulting in incorrect calculation of salaries.

Compliance audits carried out by internal audit units and by the CoA as well as financial inspection missions by the FCRS are generally of good quality. However, capacities of the FCRS and the CoA are limited, and system audits to identify control weaknesses are still not widely used. The strategic plan of the Internal audit Unit of the MoF does not address the area of payroll.

Comparison of 2011 and 2008

The present assessment does not differentiate between line ministries and primary school teachers for this indicator (as it was made in the 2008 assessment). Such differentiation is imprecise, as there are other budget users, and a proper splitting would have been: Direct budget beneficiaries on one side and service delivery units[56] (indirect budget beneficiaries) on the other side. Secondly, it does not appear useful to differentiate between types of institutions for this specific indicator, since the relevant legal framework applies to institutions of all sizes. Differences in competence between larger institutions and smaller rural institutions can be noticed for most indicators.

The present assessment reviewed the personnel and payroll systems at the Ministry of Education, the Ministry of Health, SSIF, CIFMA and in the Finance Directorate of the Chisinau Municipality.

The main change consists of the introduction of a monitoring system on employee numbers and costs in the MoF in 2009, supported by the fact that limits for employee numbers are adopted within the annual budget since 2010. The monitoring system allows the MoF to control the number of civil servants and related costs against budget limits for headcounts and costs and thus to monitor, inter alia, decrease of personnel in the context of policy measures such as the Education Reform.

[56] The main types of service delivery units are: primary schools, primary health care centers, kindergartens, cultural institutions and libraries. These are generally subordinated to ATUs of either level. Some of them are subordinated to a line ministry or CIFMA (e.g. in the health sector). They are not direct budget users, but receive and spend their budget allocations through their parent institution.

In spite of still existing internal control deficiencies, mainly at the local level, this progress justifies an overall score of B+.

Developments in 2011

- In August/September 2011, the MoF conducted a census of all civil servants across the public sector, funded by UNDP, with the objective of gathering disaggregated data per type of function and per institution This "Census of public employment and wage bill" was required in the conditionality matrix for the macro-financial assistance programme agreed with the European Commission
- The new Law on the Payroll System in the Public Sector (No. 355 of the 23rd of December 2005, as amended) will make salary calculation easier, and the Court of Accounts plans a performance audit on its implementation
- The Law on Public Internal Financial Control (No. 229 of the 23rd of September 2010) aims at introducing measures to strengthen internal control
- Internal audit departments will be established at the local level. This should be achieved by November 2011 in the limits of the existing personnel.

PI-19. Transparency, competition and complaints mechanisms in procurement

	Score (scoring method M2)	**B**
Dimension	**Minimum requirements**	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	The legal framework meets four or five of the six listed requirements	B
(ii) Use of competitive procurement methods.	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements for at least 80% of the value of contracts awarded.	B
(iii) Public access to complete, reliable and timely procurement information.	All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.	A
(iv) Existence of an independent administrative procurement complaints system.	There is no independent procurement complaints review body	D

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

Legislation and policy basis

The Law on Public Procurement (no. 96-XVI from the 13th of April 2007)[57] [hereinafter: PPL], in force since the 27th of October 2007, regulates decentralization of the procurement function to the public authorities, brings public procurement in line with international standards and provides for more transparency. The legal framework on public procurement includes about 25 Government Decisions which regulate inter alia five of the 10[58]different procurement methods, whereas the other six remain to be regulated.

The Law is oriented towards approximation of EU Directive 2004/18/EC[59]. Relevant policy basis is provided by

- the Partnership and Co-operation Agreement (PCA, signed in November 1994 and in force since July 1998) on legal approximation to EU standards (Article 54 on Public procurement); and

[57] Amended by Law no. 109 of 04 June 2010 and Law no. 124 of 18 June 2010
[58] The procedure "Open tender through Universal Commodity Exchange" was abolished in 2010
[59] "On the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts", 31 March 2004

– the EU-Moldova European Neighbourhood Action Plan (ENAP), adopted in 2005 whose Section 40 commits Moldova to develop conditions for open and competitive award of contracts between the parties, in particular through calls for tenders, in line with Article 54 of the PCA.

The PPL is generally in line with the relevant EU Directive 2004/18/EC[60], ensuring thus transparency, comprehensiveness and competition in accordance with EU standards. However, not all stipulations of this Directive are met to date. Main issues are the domestic preference, the electronic procedure (e-procurement), short deadlines for tender submission and the complaints procedure.

The concern with regard to the domestic preference results from article 44 (6) of the PPL, stipulating that contracting authorities may apply a preferential margin up to 15%[61]in favor of bids proposing domestic goods or works performed by domestic companies. Regarding the electronic procedure and the appeals procedure: please refer to sub-dimensions (ii) and (iv), respectively.

Institutional arrangements

The *Agency for Material Reserves, Public Procurements, and Humanitarian Aids* (AMRPPHA) was established in August 2005 as a central public authority subordinated to the State Chancellery whose scope was regulation, supervision, control and inter-institutional coordination in the area of public procurement. In November 2009 the AMRPPHA was transformed into the *Public Procurement Agency* (PPA), an independent agency subordinated to the MoF, The PPA has taken over the AMRPPHA's functions with exception of the responsibility for the procurement of material reserves (fuel, wheat and medicines), releasing thus the PPA from directly carrying out procurement activities. The PPA is nevertheless still involved in awarding contracts, since its mandate includes the review and approval of all contracts (as far as subject to the PPL) concluded by contracting authorities, for ensuring legal compliance. The PPA may thus request the re-evaluation or cancellation of decisions taken by a contracting authority in a tender procedure.

Value-for-money

As regards value-for-money, legislation is sound, however additional instructions on implementation would be required (e.g. the formulation and evaluation of sub-criteria in tenders), especially given the lack of technical skills of procurement officers who make little use of the "most advantageous bid in technical and economic terms" criterion for the award of contracts. Another concern is the large number of contracting authorities (more than 12.000), mostly conducting repetitive purchases of standardized goods and services. Arrangements for joint procurement would be needed to increase efficiency.

For evaluating this dimension, it is to be assessed whether the legal and regulatory framework for procurement complies with the criteria of the PEFA guidelines in the table below:

Criterion	Status
(i) Organized hierarchically and precedence is clearly established;	The Law on Public Procurement regulates decentralization of the procurement function to the public authorities. Related secondary legislation is comprised of about 25 Government Decisions regulating the implementation of the Law.
(ii) freely and easily accessible to the public through appropriate means	The Law and related secondary legislation is published in the Official Gazette and on the PPA website www.tender.gov.md.
(iii) applies to all procurement undertaken using government funds	According to its Article 1, the PPL applies to all public authorities, legal entities governed by public law and associations of such authorities, as well as to public procurement contracts directly subsidized by such authorities by more than 50%. According to Article 2, the scope of the PPL covers public procurement contracts with an estimated value[62] exceeding MDL 20,000 for goods and MDL 25,000 for works and services. Procurement with a value not exceeding the above mentioned thresholds is

[60] Although not yet in line with the Utilities Directive (2004/17/EC)of 2006; the remedies Directive package following Directive 2007/66/EC of 2009 and the Defence Procurement Directive of 2011.
[61] 20% for products manufactured by handicapped and penitentiaries, as well as ecological food and agricultural products
[62] All values hereinafter are exclusive of VAT

Criterion	Status
	regulated by the Regulation on Minor Value Public Procurement[63] where contracting authorities may directly contact a supplier without any competition. *Exceptions* The PPL explicitly provides for a number of exceptions which are listed in Article 4. In addition to exceptions such as ”state provisions of tangible resources and emergency provisions”, which would need review, there are some more problematic, not EU compliant exceptions, notably: Concession contracts for public services and works; and defense related procurement contracts
(iv) makes open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Article 33(2) of the PPL specifies the 11 procurement methods**:** a) open (public) tender; b) closed tender; c) framework contract; d) competitive dialogue; e) negotiations; f) procurement from a single source; g) request for price quotations; h) dynamic procurement system; i) electronic auction/tender; j) procurements for the social housing construction schemes; k) procurements through the Universal Commodity Exchange. The same article clearly identifies the open tender as the default procedure, whereby other procurement methods may only be used in cases specified by the PPL. These cases are mainly linked to thresholds. See sub-dimension (ii) for details. Single source procurement is not contingent on a threshold, but applies to specific circumstances defined in Article 53 of the PPL and regulated by secondary legislation[64]. Implementation problems have been reported by the Court of Accounts[65].
(v) provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	All tender opportunities, contract awards and decisions on complaints are published in the Public Procurement Bulletin which is also available on the PPA’s website. Annual procurement plans are published on the websites of the contracting authorities.
(vi) provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Article 71 to 74 of the PP Law regulates the rights to complaint, the submission and review of complaints, as well as the suspension procedure and relevant deadlines. The body reviewing the complaints is however an organizational unit within the PP and thus not independent. See sub-dimension (iv)

Four of the requirements above are fully met: (i), (ii), (iv) and (v). There are some concerns relating to (iii), which are however being address by new draft legislation. As regards (vi), concerns on independence of the complaints review are treated and scored under dimension (iv) of this indicator.

(ii) Use of competitive procurement methods.

Article 33 of the PPL defines 11 procurement methods. Those already regulated by secondary

[63] Government Decision No. 148 of 14 February 2008
[64] Government Decision no. 1407 of 10 December 2008
[65] Report on the performance audit of some objectives of the Law on Public Procurement (Decision of the CoA no. 19 of 28 May 2009)

legislation and applied are:

- the Open Tender, which is published in the PPA Bulletin and on the PPA website and open to all bidders.
- the Restricted Tender, which is applied when a large number of bidders is expected or if tender examination is complex. It is open only to a restricted number of suppliers determined in a short list.
- the Single Source Procurement, which is applied in specific cases defined by the PPL such as emergency situations, goods under copyright and products available only from one specific supplier.
- the Request for Price Quotation (RPQ), with or without publication, depending on the amount (see table below)

The "Procurement on the Commodity Stock Exchange" method was applied for the procurement of coal, cereals, vehicles and petrol products, but this practice was discontinued in 2010 and those transactions are now managed with the open tender procedure. All other procurement methods listed in the PPL are not yet regulated by secondary legislation, and are thus not applied.

Procurement method	Threshold for goods and services	Threshold for works	Publication
Minor value procurement	below MDL 20,000	below MDL 25,000	No
RPQ procedure	MDL 20,000 to 100,000	MDL 25,000 to 500,000	Not mandatory
	MDL 100,000 to 200,000	MDL 500,000 to 1,000,000	Tender notice in the Public Procurement Bulletin and on the PPA website
Open tender	above MDL 200,000	above MDL 1,000,000	Tender notice in the Public Procurement Bulletin and on the PPA website; prior announcement of intent
	above MDL 2,500,000	above MDL 99,000,000	Additional tender notice in the Official Journal of the European Community

The table below shows the distribution of contracts by procurement method for the years 2008-2010.

Table 19

Procurement method	2008		2009		2010	
	Amount million MDL	%	Amount million MDL	%	Amount million MDL	%
Open tender	3,784	64%	2,790	62%	3,525	62%
Open tender through Universal Commodity Exchange[66]	122	2%	235	5%		
RPQ with publication (registered by PPA)	379	6%	202	4%	281	5%
RPQ without publication (registered by PPA)	559	9%	454	10%	504	9%
RPQ registered by District Councils, Municipalities and Gagauzia[67]	541	9%	559	12%	700	12%
Single Source (registered by PPA)	509	9%	283	6%	632	11%
TOTAL	5,894		4,523		5,642	

Source: Public Procurement Agency

[66] Abolished in 2010

[67] For procurement under MDL 100,000 (goods, services or works) undertaken by ATUs, registration is not made by the PPA, but by the ATUs. These tenders are generally not published, but those who are, count into the row "RPQ with publication" and are registered by the PPA. The ATUs submit summary reports to the PPA on a quarterly basis on the contracts they register.

For the purpose of this assessment, Single Source procurement, RPQ without publication and RPQ registered by District Councils, Municipalities and Gagauziaare considered as non-competitive[68], and this leads to the following statistics:

Table 20

Aggregate 2008-2010		
Procurement method	Amount (million MDL)	%
Competitive	11,318	70
Non-competitive	4,741	30
TOTAL	16,059	

The application of less competitive procurement methods is regulated by legislation and requires justification by the contracting authorities. To which extent the use of less competitive methods in 30% of the above cases was justified, can only be estimated. A performance audit on the implementation of the PPL carried out by the Court of Accounts in 2008/2009[69] reports the following findings:

- Application of the RFQ procedure (instead of open tender) by contracting authorities without sufficient justification (possibility to circumvent the open tender procedure by dividing the contract);
- Single source procurement without sufficient justification

According to information from the Court of Accounts, these cases account together for less than 20% of the total procurement transactions audited.

It was however noted during this performance audit that in 40% of the cases audited the value-for-money principle was not observed, since the minimal requirements were applied for RPQs (only three offers were requested).

(iii) Public access to complete, reliable and timely procurement information.

Information on public procurement is provided on the website of the PPA www.tender.gov.md and in the Public Procurement Bulletin issued by the PPA. The Bulletin is published in hard copy twice a week (available to subscribers only) as well as on the PPA website which is publicly accessible.

Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public as follows, in line with criteria of the PEFA guidelines:

Criterion	Status
Government procurement plans	Article 13 (1) b) of the PPL requires contracting Authorities to develop annual and quarterly public procurement plans. These are published on the websites of the Contracting Authorities. According to Article 19 of the PPL, contracting authorities must publish announcements of intent for scheduled procurement contracts over MDL 200,000 (goods and services) and over MDL 1,000,000 (works). These are published on the PPA website. If values exceed MDL 2,500,000 for goods and services or MDL 99,000,000 for works, the announcement of intent is also to be published in the “Official Journal of the European Community”. It was noted by the Court of Auditors that some contracting authorities have failed to comply with these requirements[70]. The situation has however improved in 2010.
Bidding	All Tender notices are published in the Public Procurement Bulletin and

[68]Minor value contracts not taken into account, as they are not subject to the PPL

[69] Source: Report on the performance audit of some objectives of the Law on Public Procurement (Decision of the CoA no. 19 of 28 May 2009)

[70] Source: Report on the performance audit of some objectives of the Law on Public Procurement (Decision of the CoA no. 19 of 28 May 2009)

Criterion	Status
opportunities	contain all standard information. Tender documents are only available on paper base from the contracting authorities.
Contract awards	All contract awards are published in the on the PPA website on quarterly basis, indicating the successful tenderer and the contract amount
Data on resolution of procurement complaints	Information on all complaints filed is published on the PPA website and includes the filing and the decision date, the name of party filing the complaint, the description of the objection and the decision.

In addition to the above elements to be assessed for this sub-dimension, it is useful to assess the status of e-procurement implementation which is conditionality in the policy matrix for EU budget support.

Implementation of e-procurement started in 2007, but its completion has been pending for several years due to lack of funds. The legal basis is set by the PPL in article 56 and by further legislation in the area of e-government. The responsibility for developing and implementing the IT system was assigned to the PPA jointly with the Ministry of Technologies and Communications[71]. The State enterprise "Centre for Special Telecommunications" was appointed as integrator. The future e-procurement system is to be co-funded from the State budget. In July 2011 an Inter-ministerial Committee for Strategic Planning, chaired by the Prime-Minister, has allocated MDL 4 million (out of the "Electronic Moldova Fund") for this purpose. Pilot installations for e-procurement will start in 25 central public authorities in October 2011.

(iv) Existence of an independent administrative procurement complaints system.

The responsible body for processing of complaints is the PPA, more specifically the *Unit for Control and Appeals* within the Department for Regulation and Control. The complaints mechanism is regulated by the articles 71 to 74 of the PPL as described in the table below.

For scoring this dimension, it is to be assessed whether complaints are reviewed by an independent body in compliance with the criteria from the PEFA guidelines below:

Criterion	Status
(i) comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	The Unit for Control and Appeals within the Department for Regulation and Controls of the PPA is the body responsible for reviewing complaints. It is only composed of civil servants. Those are deemed to be acquainted with the legal framework.
(ii) not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Art. 9(1) of the PPL defines the functions of the PPA, more specifically in lit. b its role in coordinating, monitoring, assessing and controlling compliance of the contracting authorities with the PPL. Although the PPA is not directly carrying out procurement transactions, it results from this provision that the PPA is involved in contract award decisions, since its mandate includes the review and approval of all contracts, leading to a possible re-evaluation or cancellation of decisions taken by a contracting authority in a tender procedure.
(iii) does not charge fees that prohibit access by concerned parties;	No fees are charged for filing a complaint.
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Processes for submission and resolution of complaints are defined in the PPL, Article 72. Upon receipt of a complaint, the PPA may suspend the execution of the procurement procedure. Based on the complaint review, the PPA may accept it, reject it, request re-evaluation of the bids or (as it is the case for the majority of the cases), initiate a mediation procedure for settlement, conducted

[71] Government Decision 355 of 8 May 2009

Criterion	Status
	between the PPA, the contracting authority and the claimant.
(v) exercises the authority to suspend the procurement process;	Suspension of the procurement procedure is regulated in Article 74 of the PPL. It is applied if the claim is substantial and there is evidence that a) the supplier would suffer damage without suspension; b) there exists a probability to satisfy the claim; c) the suspension would cause no damage to the parties involved in the procurement procedure.
(vi) issues decisions within the timeframe specified in the rules/regulations; and	Procedures for the review of complaints are defined in Article 73 of the PPL. The deadline for reviewing the complaints and issuing a decision is set at 20 working days after submission. Art 73 (10) stipulates that if the PPA fails to issue a decision within this deadline or if the supplier is not satisfied with the decision, the latter may appeal to the competent administrative court. A spot-check of the publication on the PPA website showed that in a few cases decision were issued with delay.
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	According to Art. 73 (9) of the PPL, a decision is issued on the review of the complaint, where the complaint a) is left without examination (only in cases of late or improper filing) b) is withdrawn by the claimant; c) is accepted by the Contracting Authority as substantiated; d) is accepted or rejected by the PPA; e) is settled amicably. Article 73 (10), regulates access to the administrative court in cases of delayed or unsatisfactory decision, and the PPA's competence to settle the dispute is terminated thereupon. In 2009, the PPA received 327 appeals of which 45 were accepted. Nine cases were escalated to the Court. In 2010, the PPA received 511 appeals.

There is compliance in five of the seven criteria above and non-compliance for (i) and (ii). However, the PPA is not an independent body. The PPA is made responsible for handling appeals related to procurement transactions which have earlier been reviewed and approved by it. This results in a potential conflict of responsibilities. The PPA's dual responsibility in approving the procurement decisions (and thus being involved in the decision-making process) and on the other hand in resolving complaints on the same transactions is not an internationally accepted practice[72].

Although the complaint review department of the PPA is a functionally independent unit within the PPA, it is not administratively independent from other units, and this apparent conflict in responsibilities may impose constraints in its freedom of action when handling complaints. Also, the financial autonomy of the PPA is restricted, since it is a budget institution under the MoF, depending on the allocation from the State budget to the MoF.

Comparison of 2011 and 2008

Only few changes (relevant to this assessment) have occurred since 2008. These consist of a modification of the functions of the PPA (former AMPPHRA), abolishing its responsibility for the procurement of material reserves, and secondly the enactment of some secondary legislation on implementation of the law.

The 2008 assessment was based on a different set of sub-dimensions. Comparison is therefore only possible to a very limited extent. The new requirement for assessing the existence of an independent complaints review body provides for a drawback in scoring, which on the other side is compensated by a high score of the, also new, sub-dimension on public access to information.

[72] In this context it is furthermore relevant that the PPL is not fully compliant with the EU Remedies Directive 2007/66/EC.

Developments in 2011

- The EU funded twinning project "Support for public procurement system in Moldova" with the Romanian Ministry of Finance provides assistance on secondary legislation regarding the still unregulated procurement procedures and on approximation of public procurement legislation to EU Directives.
- Draft changes to legislation in regard of the issue of domestic preference have been developed by the MoF. It is expected that this provision will be repealed by the end of 2011.
- Regarding the procurement complaints system, the currently envisaged solution is the establishment of an independent Council under the MoF for reviewing complaints. This concept should be completed in 2011 then tested during a three months period, and result in an amendment of the PPL for which a draft was already prepared.
- Technical Assistance is provided by the UNDP-funded project "Transitional Capacity Support for the Public Administration in Moldova" in the area of collection and reporting of statistical data.
- Support is provided by the EU High Level Advisor to the PPA in the following areas: strategic planning, development of the PPA in accordance with EU standards, as well as for negotiations on the EU-Moldova DCFTA [73]and AA[74].

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

	Score (scoring method M1)	**B+**
Dimension	**Minimum requirements**	
(i) Effectiveness of expenditure commitment controls.	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.	B
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	Other internal control rules and procedures incorporate 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.	B
(iii) Degree of compliance with rules for processing and recording transactions.	Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.	A

(i) Effectiveness of expenditure commitment controls.

The already existing FMIS of the MoF (for details on the FMIS please refer to Chapter 2.4) covers all Treasury operations and is the main factor in providing proper authorization processes and controlling expenditure, ensuring that budget institutions do not exceed the available appropriation and the monthly allocation. The financial control system can therefore be considered as sound. At the level of the central Government expenditure control is concentrated in the State Treasury within the MoF. On the local level, control is carried out by the TTs.

The annual budget allocations are generated on the basis of the Annual Budget Law. According to Article 35 of the Law on Budgetary System and Budgetary Process (No. 847 of the 24th of May 1996, re-published in the Official Gazette on the 25th of March 2005, special edition, as amended)*)*, the direct budget beneficiaries at central level have to submit to the MoF Financial Plans ten days after adoption of the annual budget law by the Parliament. The Financial Plans are monthly expenditure breakdowns of the allocations for a specific economic classification for each budget institution, and include the subordinate institutions from which the line ministries and other direct budget beneficiaries at central level collect expenditure plans, which they consolidate. The MoF approves the financial plans 45 days after adoption of the budget. -

The Financial Plans are recorded in the FMIS where they provide the basis and the monthly limits for all spending, preventing thus overspending of budget funds, since the FMIS does not allow payments

[73] Deep and Comprehensive Free Trade Agreement
[74] Association Agreement

to be made which exceed the available allocation. The procedure is identical for the local level.

In-year adjustment of expenditure is subject to stringent regulations. All budget allocations lapse at the end of the budget year (except for explicitly authorized multi-year budget allocations where unspent funds can be reallocated in the forthcoming year). There is certain flexibility for carrying over funds from one month to the forthcoming month (and to the previous month with MoF approval). Unspent funds which result from own-source revenue can unconditionally be carried over to the forthcoming year. Transfer of allocations from one economic classification to another is allowed on the line item level if approved by the responsible line ministry, but not admitted for salary expenditure. If an increase in the overall budget is required, line ministries send proposals to the MoF who collates these requests and submits a draft budget amendment to the Government.

Commitments.

When a budget institution enters in a contractual obligation, it is obliged to register this contract with the responsible TT. Although such registration does not have the effect of reserving funds for a specific date as such, it nonetheless ensures that the relevant budgeted allocation is decreased in line with the commitment made. As a rule, contracts for public procurement cannot be signed unless cleared by the TT and registered within the existing Treasury system. However, there is no obligation for budget institutions to register information on commitments which are not based on a contract but on purchase orders (mostly low value procurements).

The existing FMIS already provides for a comprehensive system of control preventing, to a great extent, commitments being made without available budget allocation. Although this is not a fully developed commitment management system, it has nevertheless been effective in preventing overspending as evidenced also by the low stock of arrears (see PI-4) in the three years under review by 2011 PEFA. The new FMIS will provide for a fully developed commitment management system, where it will be mandatory to register commitments with a payment date for every expenditure item, irrespective of the amount and the basis (contract or purchase order), and thus linking all types of expenditure to the effective availability of funds.

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

As mentioned in the previous paragraph on Sub-dimension (i), internal control procedures revolve around the FMIS.

For every payment request, the TT controls the procurement contract, the invoice and the availability of allocation, i.e. that the requested amount is within the contract amount and within the spending limits in the Financial Plan for the month. The TT also verifies that the bank account for payment is the same as in the contract. Two signatures are applied by the TT (Head or Deputy of the TT and Chief Accountant).

Another layer of control has been introduced due to frequent cash shortages: The Financial Departments of the institutions prepare a list of payments for the day which is to be approved by the Head of the institution (Minister, Director or Mayor). Financial planning is made in a way that there is a balance at the beginning of the month allowing the execution of the priority payments (salaries, pensions, scholarships, social benefits and debt service). Whenever there is not enough cash available on the respective sub-account for making a payment, the invoice is put on hold.

SSIB and CIFMA are clients of the State Treasury. Their expenditure is processed through the Treasury Single Account, using a special interface to the FMIS, and they are using their own control systems.

There are no concerns about the system of internal controls, as this system is fully integrated within the FMIS. Understanding of the need for control was found to be well developed in all visited institutions.

Summarily it can be said that the control cycle consists of three levels:

- preventive controls in the budget institutions;
- second level ex-ante control by the TTs; and
- ex-post control by the Court of Accounts or by the FCRS at least every two years (plus ad hoc controls by the MoF on a case basis).

The Internal Audit Department of the MoF is responsible for auditing the TTs. The Court of Accounts carries out an external audit of the TTs when auditing the MoF.

Financial management and control (FMC[75]).

The MoF has adopted *National Standards for Internal Control in the Public Sector* [76](on strengthening of internal control, description of processes, risk assessment, efficiency of control activities, delegation of responsibilities, segregation of duties, etc.) Pilot implementations for FMC were carried out in the frame of the PFM project in SSIB, the MoF, the State Treasury and the Ministry of Social Protection, Family and Child. These pilot projects focus on identifying and documenting the main administrative processes in the institutions and on training of staff and managers at different levels. The Law on Public Internal Financial Control (No. 229 of the 23rd of September 2010) (see PI-21) assigns the responsibility for FMC to the head of the institution (Article 6) and to a working group to be established (Article 14). In practice, responsibilities have been delegated to the heads of department. An awareness raising seminar on FMC and managerial accountability was held at Government level.

The existing control system is comprehensive and sound, including for non-financial processes, and appropriate to manage the operational risks. Segregation of duties and the *four eyes* principle are well established. Delegation of duties is practiced in several areas. The MoF admits however that some control procedures are excessive and reduce efficiency. This would be an area for improvement.

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

Recording and processing of financial transactions, following the principle of segregation of duties, is subject to the built-in controls of the Treasury FMIS. Together with the strong system of internal regulations, this leaves little room for non-compliance.

Compliance with the rules for processing of transactions is audited at institution level by the Court of Accounts for the larger institution and by the FCRS for the smaller institutions. There is no evidence in audit reports about irregularities. The regularity audit of the 2009 execution of the public budget resulted in a clean audit opinion. Findings of the CoA with regard to irregularities in expenditure processing relate to cases of overspending the budget. These problems should, in the future, become obsolete with the introduction of a dedicated and automated commitment management system.

The fact that expenditure of ATUs is processed by the TTs adds an additional layer of confidence, since the staff in the TTs shows a high level of qualification. The ATUs (that now have only read-access to the FMIS) will in the future FMIS technically have the possibility to execute transactions. However, the MoF plans to grant this competence only to those that have, through training, proven that they possess the necessary qualifications. This approach of a very careful decentralization of control is an adequate measure to ensure that the level of compliance will be maintained in the future.

Comparison of 2011 and 2008

There has been no change in procedures and systems to date, but the new FMIS, originally planned to go live as of January 2013 for budget execution, will include a dedicated commitment management system. There is evidence that development of this system has already progressed far. Understanding of the scope and need for a commitment management system is well developed.

Developments in 2011

- Additional work required in order for the new FMIS to go live.
- The Twinning Project on Public Internal Financial Control (see PI-21).

[75] FMC is part of the PIFC system. See PI-21.
[76] Order no.51 of 23 June 2009

PI-21. Effectiveness of Internal Audit

	Score (scoring method M1)	**C+**
Dimension	**Minimum requirements**	
(i) Coverage and quality of the internal audit function.	The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.	C
(ii) Frequency and distribution of reports.	Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	B
(iii) Extent of management response to internal audit findings.	Prompt and comprehensive action is taken by many (but not all) managers.	B

(i) *Coverage and quality of the internal audit function.*

Significant reforms have taken place in the area of Public Internal Financial Control (PIFC), a concept developed by the European Commission, covering internal audit (IA) and Financial Management and Control (FMC).

PIFC provisions have been introduced since July 2008 by amendments of the Law on Budgetary System and Budgetary Process and adoption of a PIFC Strategy Paper[77], which stipulates the implementation of a decentralized internal audit function and includes an action plan covering the period 2010-2013, requiring that an internal audit function shall be established in all central public authorities in 2010 and in all ATUs of Level 2 in 2011. The paper also covers the Social Security institutions CIFMA and SSIF. As a further development of the PIFC concept the *Law on Public Internal Financial Control* (No. 229 of the 23rd of September 2010) was adopted and will enter in force on the 26th of November 2011. By that date, central public authorities and ATUs of Level-2 are obliged to establish IA units, whereas other budget institutions may do so. The legal provisions stipulate that internal audit units must be established within the limits of the existing personnel.

The legal provisions also stipulate the establishment of a Central Harmonization Unit (CHU) in the MoF, responsible for developing the legal framework and methodology for PIFC, for monitoring the internal audit units and for training and certification. Further to the change of scope of the CoA on certification of the accounts of the State, a reorganization of the FCRS started. The current and future role of the FCRS is elaborated in the PIFC Strategy, stipulating that the FCRS continues to carry out an inspection function until a FMC system has been established. The FCRS will gradually refocus its activities into an investigation body to act on the basis of complaints or suspicion of fraud and irregularities.

The IA function in the public sector is in the early stages of development. IA units have been established in 47 central public institutions, i.e. in almost all of them with four exceptions (Ministry of Education, Ministry of Justice, Border Service and MOLDSILVA Agency). 90 internal auditors were appointed in total. These IA units are directly subordinated to the respective heads of the institutions. Whereas in 2010, only six IA units were operational, a recent MoF evaluation of 32 IA units (out of the 47 existing ones) found 18 to be operational, i.e. operating according to the standards (i.e. having annual audit plans and an IA charters). The only IA unit at local level to date was established in 2010 in the municipality of Chisinau.

The most developed IA units are those in the MoF, the Customs Service, SSIF, CIFMA, the National Bureau of Statistics, the Ministry of Health and the Court of Accounts. Three of them have strategic plans. The IA unit of SSIB is well staffed with 18 auditors, but in general capacity still needs to be developed, since most IA units are understaffed. The IA unit of the MoF can, on these grounds, only cover 30% of its scope.

The CHU has developed a methodological framework for IA in the frame of the PFM Project, which is comprised of:

[77] "Concept of Public Internal Financial Control" (Government Decision no. 597/02 July 2010)

- National Internal Audit Standards (MoF Order No 92 of the 27th of November 2007), based on IIA[78] Standards;
- A Code of Ethics for Internal Auditors and a Charter of Internal Audit, regulating the performance of internal audit (MoF Order No 111 of the 26th of December 2008);
- Methodological Norms for Internal Audit in the Public Sector (MoF Order No 118 of the 29th of December 2008);
- An Internal Audit Manual based on international standards, published in December 2008.

The types of audits foreseen according to the PIFC Law are system audit, compliance audit, financial audit, performance audit and IT audit. In practice the majority of the audits carried out to date are compliance audits and a few financial and performance audits.

Risk assessment is understood and carried out, mostly on the basis of operational objectives, but also on strategic objectives. A basic knowledge of the concepts of economy, efficiency and effectiveness exists, but implementation is still ahead. Internal auditors still need more training to fully understand their role.

(ii) Frequency and distribution of reports.

Upon completion of every IA mission, audit findings and recommendations are being elaborated, together with the audited entity, and presented in an audit report which is prepared in accordance with the National Standards and the Methodological Norms for IA. The template for audit reports is standardized and published in the Official Gazette. IA reports are presented to the top management of the audited entity and at request to the CoA.

Table 21: Statistics for 2010

IA Unit	Number of reports produced
MoF	16 audit missions in: – 4 organizational units of the MoF – 9 Territorial Treasuries and in the Customs Administration Types: – 4 system audits – 2 performance audits – 9 compliance audits – 2 ad-hoc audits on request of the Minister of Finance
Ministry of Health	4 audit missions
CIFMA	– 8 audit missions – 1 audit mission together with the Ministry of Health
Chisinau Municipality	7 audit missions (compliance audits)

Source: Institutions mentioned in the table

Every IA unit prepares an annual audit report, submitted to the head of the institution and to the MoF. A reporting system, whereby the CHU in the MoF shall receive annual activity reports from all IA units, is under preparation.

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

In the period 2009-2010, the IA unit of the MoF has carried out 19 audit missions (in the MoF itself and in TTs), whereby in 14 of these missions a total of 113 recommendations were issued. Further to this, the responsible organizational units have elaborated a total of 11 action plans. These are still under implementation as they relate to measures that require a longer period of time for completion.

SSIF reports an implementation rate of 90%, with the remaining 10% being delayed since they require changes of the legal framework. CIFMA reports an implementation rate of close to 100% on 54 recommendations made in 2010.

The Head of the IA unit of the Ministry of Health also confirms good success of the implementation of recommendations.

These four positive examples provide only limited assurance about management response to IA

[78] Institute of Internal Auditors

findings, but considering that there are to date only a few well developed IA units across the public sector, and hence only a limited number of audit reports and findings, the default score B is assigned.

Comparison of 2011 and 2008

The successful move from the inspection system and the concept of a centralized internal audit service (in force during the 2008 Assessment) to the PIFC concept, in line with the requirements of EU partnership agreements, represents a significant progress. Important milestones in establishing the legal and methodological framework for PIFC have been achieved. Some internal audit units, e.g. in the MoF and SSIB, already show high standards. However, coverage is still low since half of the IA units are not operational yet, and most auditors still lack experience.

Overall score: C+ (a score raise would have been logical, considering the progress made, however the score assigned in 2008[79] does not leave room for that).

Developments in 2011

Further development of the PIFC concept and capacity building in the area of IA is expected from the Twinning project with the Swedish and Dutch Government, which is currently in its inception phase and whose implementation will start in October 2011. One of the objectives of this project is further strengthening of the IA capacity through training and pilot audits, and the development of a certification scheme for internal auditors.

3.5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

	Score (scoring method M2)	A
Dimension	**Minimum requirements**	
(i) Regularity of bank reconciliations	Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.	A
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	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.	A

(i) Regularity of bank reconciliations

The development of the Treasury Single Account (TSA) system was carried out progressively starting in 1993. Since the 1st of March 2007 all budgets, including the whole local level as well as SSIF and CIFMA, are executed via the TSA. Since the 1st of January 2008 all accounts of TTs in commercial banks have been closed. The TSA is held in the NBM and all revenue collection is made on the TSA.

In 2008, still 85% of the budget funds were maintained in commercial banks and 15 % in NBM. In 2010, 84% of the budget funds are maintained in NBM and 16% in commercial banks (embassies, donor projects).

The structure of the TSA reflects the structure of the budget:

- one MDL account with 188 sub-accounts (for TTs, SSIF and CIFMA);
- seven FX accounts for channelling foreign exchange payments and receipts of budget institutions.

Every TT has three accounts within the TSA, corresponding to the budget components: one for the State Budget - main component; one for the State Budget - special means and special funds; and one for the ATU budget.), serving the local entities within its territory. All revenue is collected on these sub-accounts and payments are made from there. There are analytical accounts for every public institution, including Level-1 ATU for evidence keeping.

The State Treasury has, like all domestic commercial banks, a real-time participant's access in the

[79] Dimension (i) should have been scored D in 2008 given the status of internal audit at that time.

Interbank Payment System operated by the NBM for executing all domestic payment transactions directly in the real-time. The State Treasury distributes extracts of the TSA account statements to the TTs on a daily basis, and these in turn distribute extracts to the budget institutions in their territory. Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF and reconciled on a daily basis. Account statements on funds held in commercial banks are provided to the institutions holding the accounts and reconciled by them on daily basis (and additionally on quarterly basis by the MoF).

All budget institutions keep accounting systems on modified accrual basis (see PI-25) and use the daily account statement on budget execution provided by the TTs (see PI-24) for reconciliation. Differences, if any, are small and resolved in a matter of a few days. There is no evidence of reconciliation differences in the financial reports.

Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF on a daily basis and reconciled there.

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

Within the Treasury system, accounting is carried out on cash basis and there are no suspense accounts. Advance payments are treated as expenditure on cash basis.

As regards the accounting on modified accrual basis maintained in the all central and local level budget institutions, advance payments are booked on temporary accounts which are cleared upon final payment. According to the Annual Budget Law, advance payments may not exceed 10% of the total invoice amount.

In the financial statements submitted by the budget institutions (For details on these financial statements please refer to PI-25), advance payments are evidenced as assets in the balance sheet. The bookings are reversed upon booking of the final invoice.

Comparison of 2011 and 2008

There were no significant changes.

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M1)	A
Dimension	**Minimum requirements**	
Collection and processing of information	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.	A

The main types of service delivery units are primary schools, kindergartens, cultural institutions and libraries. The allocation of budgets to these institutions is per capita based. Amounts allocated to each service delivery unit are adopted by their respective ATU authorities, in the frame of the budget of the relevant parent budget institution (ATU of Level 1 or 2).

Inter-governmental transfers are made from the State budget to the ATUs for the purpose of filling the gap between local income (local tax and other revenue and revenue from shared taxes) and expenditure needs calculated on the basis of a per capita formula. The formula is regulated by Article 10 of the Law on Local Public Finances. This “Financial Support Fund” is funded from the State budget and from resources of those ATUs whose revenue collection exceed by more than 20% the national average of per capita expenditure (See also PI-8.).

All inter-governmental transfers are made by the MoF to the Level 2 ATUs. Level 2 ATUs are then responsible for transferring to ATUs of Level 1 their corresponding share of the fiscal transfer. The allocation of transfers from the State budget to Level-2 ATUs is regulated by the Law on Local Public Finances (No. 397 of the 16th of October 2003). The amounts transferred from Level 2 to Level 1 ATUs are regulated by the same formula according to the Law on Local Public Finances.

Service delivery units are indirect budget beneficiaries. Their expenditure processes are carried out by the parent institution who also keeps the accounting records on the transactions relating to their subordinated service delivery units. Transactions are evidenced in the account statements produced by the TTs and sent to the Level-1 ATUs which in turn provide them to their subordinated service delivery units on a regular basis.

Similar reporting systems are in place for the primary health care institutions contracted by CIFMA. They operate as separate publicly owned legal entities, funded by CIFMA and the Ministry of Health.

Comparison of 2011 and 2008

There were no significant changes in procedures or reporting systems. The score of 2008 is herewith corrected, and an overall score of A is assigned.

Developments in 2011

There are no specific developments in 2011.

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

	Score (scoring method M1)	**C+**
Dimension	**Minimum requirements**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).	C
(ii) Timeliness of the issue of reports.	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	A
(iii) Quality of information.	There are no material concerns regarding data accuracy.	A

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

Consolidated reports:

Reporting on the execution of the State Budget is regulated by Article 44 of the Law on Budgetary System and Budgetary Process, stipulating that the MoF prepares monthly and annual budget execution reports.

The monthly budget execution reports are cumulative and structured by component of the budget (main component, capital projects funded from external sources, special funds and special means), for the State Budget and for the ATUs (consolidated over all ATUs). They contain planned figures for the year and for the period, executed amounts, deviations in amount and percentage. Reports on the National Public Budget contain also comparative figures for the corresponding period of the previous year. Reports are provided in aggregated form with the main headings, as well as on the detail level by administrative, economic and functional classification[80] (see PI-5).

The MoF prepares a consolidated monthly budget execution report on the National Public Budget covering the State Budget, the ATUs as well as SSIF and CIFMA (who submit monthly and quarterly reports to the MoF).

All monthly and annual reports are published on the MoF website. The MoF additionally prepares quarterly budget execution reports for internal monitoring use. These reports are not published, and they are submitted to the Government or to other institutions only on request.

The reports on the State budget and on the ATU budgets are generated from the FMIS. The monthly ATU budget execution reports are submitted to the MoF by the TTs, whereas the quarterly and annual ATU budget execution reports are submitted to the MoF by the ATU Finance Departments after approval by the local councils.

Reports on institution level

[80] This level of detail is provided since 2007, but this was not recognized in the 2008 assessment.

The evidence on budget execution is kept in the TTs. The TTs prepare daily account statements for each budget institution in their territory on expenditure and revenues, and provide them electronically and on paper base to the institutions. At the end of the month, the TTs prepare monthly budget execution reports for each budget institutions in their territory, broken down by budget classification on line item level, and by subordinated institutions. These reports are provided on paper base to the institutions, and electronically to the State Treasury who uses them to prepare the consolidated report.

The budget execution reports do not include information on commitments, since no commitment management system is yet available in the FMIS. Nevertheless, information on commitments related to public procurement contracts is maintained at the level of the TTs. The development of the new FMIS which will include report on commitments is on-going.

(ii) Timeliness of the issue of reports.

The monthly budget execution reports on all components of the budget are generally prepared within three weeks of the end of the month and published on the MoF website. This was verified by the assessors.

SSIB and CIFMA produce their monthly reports within 15 days, the quarterly reports within 30 days and the annual reports within 45 days after the end of the reporting period.

(iii) Quality of information.

The budget execution reports are generated by the existing Treasury FMIS, containing planned and executed amounts, deviations and comparative data.

There is assurance that the information presented in these reports is reliable:

- All expenditure and revenue is processed through the TSA, held in the Central Bank, and financial transactions are performed in real-time through the RTGS (Real Time Gross Settlement)
- The robustness of the existing Treasury FMIS
- The segregation of duties and the *four-eyes* principle applied for any financial transaction
- The centralized processing and additional layer of control by the TTs

Comparison of 2011 and 2008

There was no substantial change in the production of budget execution reports since the 2008 assessment, but the new FMIS will include a commitment management system providing also for the reporting on commitments. There is evidence that development of this system has already progressed far. However, since the commitment system is not yet operational, it cannot be considered for scoring. The overall score remains at C+ the same level as in the 2008 assessment.

Developments in 2011

Work on the new FMIS.

PI-25. Quality and timeliness of annual financial statements

	Score (scoring method M1)	C+
Dimension	**Minimum requirements**	
(i) Completeness of the Financial Statements.	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.	A
(ii) Timeliness of submission of the Financial Statements.	The statement is submitted for external audit within 6 months of the end of the fiscal year.	A
(iii) Accounting Standards Used.	Statements are presented in consistent format over time with some disclosure of accounting standards.	C

(i) Completeness of the Financial Statements.

Government financial statements

The State Treasury prepares an annual budget execution report based on instructions of the MoF prescribing the format. According to the Law on Budgetary System and Budgetary Processes, the MoF shall submit the State Budget Execution Report to the Government by the 1st of May of the forthcoming year and the Government shall submit the Report to the Parliament by the 1st of June (see also PI-10). After adoption by the Parliament, the Report is published in the Official Gazette. Separate budget execution reports are prepared by the ATUs, SSIF and CIFMA, which the MoF consolidates into one single document covering the State, the ATUs, CIFMA and SSIF, i.e. the whole national public budget.

The budget execution report itself is structured by component of the National Public Budget and lists expenditure and revenue by functional and economic classification. There are sections on capital investments, on the reserve fund, on the deficit, on the public debt and on inter-budgetary relations.

In addition to the budget execution report, the MoF prepares an explanatory note containing information on policy matters (tax, customs, expenditure, salaries, debt); public debt; capital investments; reserve fund; deficit; state debt; Inter-budgetary relations; monitoring results on state enterprises; privatisation proceeds; arrears.

The complete report is published in the *Moniturol Official*. It is broadly in line with international standards for cash based accounting. It does however not include a disclosure of accounting policies, nor information on fiscal risk and contingent liabilities. The quality of the report is reliable, since it is generated from the existing Treasury FMIS.

Financial statements of the budget institutions

All budget institutions (at central and local level) as well as SSIF and CIFMA, maintain accounting systems on modified accrual basis. They all keep records for each of their subordinated tertiary institutions (such as schools), prepare quarterly and annual consolidated reports and send annual financial statements, which also include a balance sheet, to their parent institutions which sends them further on to the MoF. These reports are however not consolidated nor published by the MoF. Several budget institutions do not have modern IT systems and maintain their accounts in a mix of paper base and Excel sheets, reporting to the MoF on paper basis.

(ii) Timeliness of submission of the Financial Statements.

According to the Law on Budgetary System and Budgetary Processes, the MoF shall submit the State Budget Execution Report to the Government by the 1st of May of the forthcoming year and the Government shall submit the Report to the Parliament by the 1st of June.

For 2009, the Report was sent to the Government on the 30th of April 2010.

For 2010, the Report was sent to the Government on the 29th of April 2011.

The Report is not formally submitted to the CoA (and there is no legal stipulation for such submission), but the CoA starts auditing budget execution already during the budget year, generally in October, based on data available. The audit by the CoA is generally completed by June of the forthcoming year.

(iii) Accounting Standards Used.

Accounting is made on cash basis, using a national methodology[81] which is not IPSAS compliant, but broadly following international standards. Six different charts of accounts are used:

- Two for cash accounting by the State Treasury and Territorial Treasuries
- Four for modified accrual accounting at different institutional levels

The PFM Project has elaborated and tested a unified single chart of accounts and a new GFS 2001 compliant budget classification which was originally planned to be used from the 1st of January 2012 for 2013 budget preparation when the new FMIS was expected to go live. Relevant secondary legislation was enacted in August 2011[82]. Amendments to legislation are still needed, and new instructions need to be prepared.

[81] In total 31 Ministerial Orders, published in the Monitorul Official

[82] Methodological norms on accounting evidence and financial reporting in the budget system and Methodological Norms on cash based execution of the components of the national budget through the MoF treasury system (Ministerial Orders no.108 and 109 of 26 August 2011)

Comparison of 2011 and 2008

There was no substantial change in the production of financial statements since the 2008 assessment. Although the introduction of a new chart of accounts and GFS 2001 are already in a testing phase, there are not enough grounds to raise the overall score, which remains thus C+.

Developments in 2011

The above mentioned new GFS 2001 compliant unified chart of accounts.

3.6 External scrutiny and audit

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

	Score (scoring method M1)	B+
Dimension	**Minimum requirements**	
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.	B
(ii) Timeliness of submission of audit reports to legislature.	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.	A
(iii) Evidence of follow up on audit recommendations.	There is clear evidence of effective and timely follow up.	A

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

Legal basis

The new Law on the Court of Accounts (No. 261 of the 5th of December 2008), was developed with support of the Swedish National Audit Office and adopted on the 5th of December 2008, effective form the 1st of January 2009. It provides the basis for further development of external audit in line with the INTOSAI standards. Key changes introduced by the new law are the shift from external financial control to regularity audit, which has been carried out for the first time in 2010 by certifying the 2009 Government financial statements[83]. The new law is inspired by EU standards and reflects the key principles of the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence. The independence of the CoA is stipulated in the Constitution and in Article 2 of the Law on the Court of Accounts. Article 6 provides for organisational, functional, operational and financial independence. The Law on Budgetary System and Budgetary Process defines, in Article 13, the CoA as responsible for external audit of the management of public funds[84].

In line with the Strategic Development Plan 2006 – 2010 of the CoA, the institution has gradually transformed in the past four years from an external control institution into a Supreme Audit Institution, as this was a condition in the EU Policy Matrix.

The CoA is member of INTOSAI and EUROSAI and takes part in INTOSAI working groups.

Scope and nature of audits

According to the Law, the mandate of the CoA consists in carrying out financial audits and performance audits of:

- the State Budget;
- the SSIF;
- the CIFMA budget;

[83] "Report on the Management and Use of Financial Resources and Public Property" / Annual report 2009), adopted by Decision of the CoA no. 58 on 9 July 2010.
[84] Amendment108-XVI of 17 December 2009, effective 29 December 2009

- the ATU budgets of Level 1 and 2;
- Public enterprises and Joint Stock Companies with State majority; and
- Private sector institutions receiving subsidies.

The SSIF and CIFMA are subject to a mandatory annual audit.

The CoA has started in 2009 with the implementation of performance audits and IT Audits.

Statistics on the audit activity of the CoA and on the nature of audits carried out is shown in the table below:

Table 22

Indicators	2009	2010
Number of completed audit missions in total, including:	37	37
– in accordance with the Action Plan of the CoA	27	
– other requests and ad-hoc missions of the CoA	10	
Number of decisions adopted regarding audit results	41	42
Audit reports prepared as result of audit missions	50	49
Types of audit:		
– Regularity audits	28	18
– Performance audits	4	5
– IT audits	2	2
– Other types of audit	16	14

Source: Court of Accounts, Activity Report of the CoA for the year 2009, (published 18 June 2010)

Coverage

Out of a total of 2,145 entities (including investment projects, programmes and beneficiaries of subsidies) susceptible of auditing according to legislation, the CoA has audited 495 in 2009[85]:

- 29 central public authorities;
- 220 local public authorities;
- 129 subordinated institutions;
- 117 State enterprises or JSC with State majority.

In 2008, the CoA carried out 56 audits, covering in total 224 public entities[86].

In the frame of the regularity audit for 2010, the CoA has audited the State Tax Service and the Customs service, thus 100% de State Budget revenue. As regards expenditure, the CoA has applied the materiality principle (auditing at least those institutions representing at least 2% of the total budget in terms of expenditure[87])) and has thus audited a total of 75% of the State Budget expenditure as shown in the table below:

[85] Source: Activity Report of the CoA for the year 2009, (published 18 June 2010)
[86] Source: Court of Accounts.
[87] But also some other institutions with a lower share, based on risk assessment.

Table 23

Institution	Share in the State Budget (%)
State Chancellery	1
Superior Council of Magistracy	< 0.1
Supreme Justice Court	0.1
Consolidated unit for implementation and monitoring of projects in the energy sector	< 0.1
Ministry of Agriculture and Food Industry	5
Project for services in health and social assistance	< 0.1
Ministry of Education	8.1
Ministry of Justice	2.9
Ministry of Regional Development and Constructions	1.1
Agency for Land Relations and Cadastre	0.2
National Commission for the Financial Market	0.1
Academy of Science of Moldova	1.9
Central Electoral Commission	0.3
Ministry of Finance	26.4
Ministry of Transport and Road Infrastructure	4.3
SSIB	12.9
CIFMA	10.2
Total	75[88]

Source: Court of Accounts

Due to the lack of staff, the CoA is not able cover the whole scope of activities. Based on previous practice, activities are divided between the CoA, who audits ministries and Level-2 ATUs, and the FCRS who audits (or rather: inspects) agencies and Level-1 ATUs. This distribution of duties is, however, not regulated by legislation. Control focus of the FCRS is put on periodic ex-post control of budget execution and on compliance.

Standards

The audit process of the CoA follows the international standards of INTOSAI, EUROSAI and IFAC (International Federation of Accountants), as well as COBIT and ISACA (Information System Audit and Control Association) for IT audit. Planning is made on the basis of a three-year audit plan.

Two manuals have been developed: a Regularity Audit Manual including working papers, and a Performance Audit Manual, both with support of Technical Assistance projects. IT tools for supporting the audit work are under development. Quality assessment is carried out on selected audit missions.

(ii) Timeliness of submission of audit reports to legislature

Draft audit reports containing findings, conclusions and recommendations are presented for discussion in public meetings with the audited entity, stakeholders and the media. The audited entities may provide comments within five days, before the Plenary of the CoA approves final report by voting. The Report is then submitted to the Parliament, Government, MoF and President, and published in the Official Gazette and on the CoA website. In cases of fraud, the Report is submitted to law enforcement agencies (Prosecutor, Centre for Combating Crime and Corruption).

The CoA prepares an Annual Report on the execution of the National Public budget which for 2009 for the first time was a regularity audit of the Government financial statements. The Report is submitted to the Parliament by the 15th of July, i.e. 2.5 months after submission by the MoF which is the 30th of April. According to a recent amendment of the Law on the Court of Accounts[89], this deadline was extended to the 15th of October (see PI-10).

The CoA additionally prepares an annual Activity Report which it submits to the Parliament by the 31st of March.

(iii) Evidence of follow up on audit recommendations.

Recommendations have to be implemented by the audited entity within three to six months depending

[88] Commercial rounding.
[89] Adopted in July 2011, but not yet promulgated as of September 2011

on the topic. The CoA has established a procedure for monitoring implementation, and carries out further ad hoc checks in cases of non-compliance. The Methodology Department of the CoA receives and registers the replies of the auditees and sends out reminders when replies are late. There are currently considerations to publish the replies, based on the Swedish model.

Table 24

Indicators	2009	2010
Audit reports prepared as result of audit missions	50	49
Number of recommendations, of which: - implemented - in process of implementation - not implemented, with deadline passed	1,188 573 334 281	1,001 379 109 0[90]
Audit material submitted to law enforcement agencies: - number of acts filed - number of files submitted to the judiciary - number of ordinances of refusals to file acts	15 29 14 2	16
Impact of the CoA activities: - adopted legal and normative acts - amount of public funds irregularly used, identified (in MDL 1,000) - amount of funds restituted to the State budget (in MDL 1,000) - public property restituted or taken in evidence (in MDL 1,000) - amount of accounting errors admitted (in MDL 1,000)	 2 12,468 1,007 87 308,120	

Source: Activity Report of the CoA for the year 2009, (published 18 June 2010) and Cour of Accounts

The success rate for the implementation of recommendations was 96% in 2008, and over 90% in 2009[91].

The 2009 Report contains a summary on the follow-up on major recommendations of the CoA, and lists measures for remediation that have been undertaken in the following areas:

- Budget revenue collection;
- Improvement of the processes of State budget revenue management;
- Registration and accounting evidence of public property;
- Efficient management of funds allocated for capital investments and repairs;
- Registration of immovable assets;
- Improvement of management of public funds;
- Management accountability in budget institutions;
- Quality of services;
- Training of employees in new public procurement procedures and implementation of PIFC.

Comparison of 2011 and 2008

The CoA has successfully completed the shift from external financial control to regularity audit, with a new legal basis established in accordance with international standards. Strong support by the Swedish National Audit Office has contributed to develop the methodological framework and the skills of auditors. The main shortcoming is the lack of capacities. This justifies the assignment of an overall score of B+

Developments in 2011

- Further strengthening of capacities is provided through Technical Assistance by the Swedish National Audit Office until 2012. IT tools for auditing are currently under development.
- In July 2011, the Parliament has approved an increase of the number of employees of the CoA by 10 persons.

90 Deadline had not elapsed at the time of drafting this report
91 Source: Court of Accounts

PI-27. Legislative scrutiny of the annual budget law

	Score (scoring method M1)	B+
Dimension	**Minimum requirements**	
(i) Scope of the legislature's scrutiny.	The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	B
(ii) Extent to which the legislature's procedures are well-established and respected.	Simple procedures exist for the legislature's budget review and are respected.	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 (time allowed in practice for all stages combined).	The legislature has at least two months to review the budget proposals.	A
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	B

(i) Scope of the legislature's scrutiny.

According to the Law on Budgetary System and Budgetary Process (LBSBP) (No. 847 XIII of 24th of May 1996 with later amendments) the draft State Budget should be submitted to Parliament by the 1st of October. The 2010 State Budget included the following annexes put before the legislature for appropriation:

- Annex 1 - Summary of revenues, expenditures, fiscal balance and source of financing in the event of a deficit;
- Annex 2 - Allocations to central government entities financed from the State Budget;
- Annex 3 - Allocations to the judicial courts;
- Annex 4 - List of programme-based budgets for central government entities;
- Annex 5 - Capital investment allocations for the central government entities;
- Annex 6 - Capital expenditure allocations to local government units, and;
- Annex 7 - Fiscal transfers from the state budget to districts and municipalities.

The draft State Budget outlines in the Explanatory Note the macro-economic and fiscal assumptions on which the budget is based. It includes detailed information regarding the evolution in revenues and expenditures for the past two years and put into perspective of the budget of the next fiscal year. However, it is noted that the State Budget does not include multi-year or medium-term revenue or expenditure forecasts.

The draft State Budget is subject to readings in the Parliament after Government proposals on relevant (mainly fiscal) legislative amendments are adopted by separate law. For the 2011 State Budget, the Law on "Modifying and Completing some Legislative Acts No. 48 of the 26th of March 2011" included necessary legislative amendments before budget appropriations could be passed in the 2011 State Budget Law (NB: the 2011 Budget was considerably delayed see PI-11). According to the Chairman of the Committee on Economy, Budget & Finance, the Parliament spends relatively more time deliberating on legislative aspects and implications of the draft State Budget than discussing financial allocations to budget entities.

The Government also submits to the Parliament the MTEF for information purposes but does not require approval, as this is not foreseen in the Law on the Budgetary System and Budgetary Process. Article 18 of the Law states that the MTEF is updated concurrently with the development of the draft State Budget and is included as part of the Explanatory Note (see PI-12).

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

The work of the Parliament and its committees is based on the Law on the Adoption of the Regulation of the Parliament (No. 797 XIII of the 2nd of April 1996 with later amendments). Chapter 3, Section 1 of the Law outlines the operations of the permanent committees. The Committee on Economy, Budget & Finance has the primary responsibility for budgetary aspects.

The process for the Parliament's examination and adoption of the draft State Budget is outlined in Chapter II of the LBSBP (No. 847 XIII of the 24th of May 1996 with later amendments). It is also noted that the Parliament agrees annually on the timetable for the process. According to article 27, the *permanent* committees first examine the draft State Budget and then report to the Committee on Economy, Budget & Finance on a pre-agreed date. On that basis, and in accordance with Article 28, the Committee on Economy, Budget & Finance prepares a report and a list of recommendations that are presented to the plenary of the Parliament. The examination of the draft State Budget is thereafter carried out in three readings that typically have the following content:[92]

- First reading – Hearing of the reports of the Government and the Committee on Economy, Budget & Finance, and examining main budgetary and fiscal policies.
- Second reading – Based upon a presentation of the Committee on Economy, Budget & Finance, the Parliament examines the estimated revenues (calculations and structure), estimated expenditures (structure and allocation), and the overall surplus/deficit.
- Third reading – Based upon a presentation of the Committee on Economy, Budget & Finance, the Parliament examines detailed appropriations and adopts the State Budget.

The broad procedures for the Parliament's review of the draft State Budget are well established and are generally respected. However, it is noted that the overall process was significantly delayed for the 2011 budget due to the November 2010 elections, which resulted in a new Government and changes to the earlier draft budget prepared.

(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 (time allowed in practice for all stages combined).

As already discussed in dimension (i), according to Article 26 of the LBSBP, the Government must submit the draft Budget to the Parliament by the 1st of October each year, and according to Article 31 Parliament must adopt the annual Budget Law by the 5th of December. Formally, there are more than two months to conduct readings and review the budget proposal. In practice, the draft State Budget is usually made available to the Parliament several weeks before the official deadline. The 2009 draft State Budget Law was submitted to Parliament on the 29th of September 2008 (GoM Decree No 1104 approving the draft State Budget Law 2009), which enabled the appropriation process to be completed on the 21st of November 2008, well in advance of the legal deadline.

However, since 2009 political issues have disrupted the otherwise robust process. The 2010 annual Budget Law was adopted in time for the start of the fiscal but at the very end of 2009, passed the deadline of the LBSBP. The Budget Law for 2011 was approved with the significant delay on the 31st of March 2011 due to the elections of late November 2010[93] (see also PI-11).

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

Articles 41, 42 and 43 of LBSBP set out clearly that any changes in the aggregate budget revenue and/or expenditure ceilings, in the fiscal stance, and in the allocations to specific budget entities would require a so called *rectification*[94] of the Budget (i.e. revision in appropriations and amendment to the Budget Law) authorised by Parliament. These rules for in-year budget amendments by Parliament are clear, set strict limits and appear and have been mostly adhered to.

However, the rules for re-allocation (*virement rules*) within the existing appropriations of the annual Budget Law, stipulated in the LBSBP, are not equally clear. The LBSBP does not set out explicit virement rules regarding the main budget headings (administrative, functional, and economic) and provides considerable discretion to the executive and the MoF.

Comparison of 2011 and 2008

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[92] The State Budget can also be adopted after two readings.

[93] According to Article 39 of the Law on the Budgetary System and the Budgetary Process (No. 847 XIII of 24 May 1996 with later amendments), expenditure financing will be done on a monthly basis at one twelfth of the sum of expenditures provided for the preceding budget year in case the State Budget is not adopted by 31 December.

[94] The term is used in the unofficial English translation of the LBSBP.

There have been no major changes since the 2008 PEFA assessment.

Developments in 2011

There are no specific developments in 2011.

PI-28. Legislative scrutiny of external audit report

	Score (scoring method M1)	**C+**
Dimension	**Minimum requirements**	
(i) Timeliness of examination of audit reports by the legislature.	Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.	A
(ii) Extent of hearings on key findings undertaken by the legislature.	In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.	C
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	Actions are recommended to the executive, some of which are implemented, according to existing evidence.	B

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

According to Article 8 of the Law on the Court of Accounts (No. 261 of the 5th of December 2008), the CoA shall submit the Annual Report to the Parliament by the 10th of October[95], to be reviewed in the Plenary Meeting of the Parliament. The Report is received by the Budget Committee[96] in the Parliament, which is comprised of 13 members, reviews the Report and requests additional information from the CoA before including it in the Plenary Session of the Parliament. In 2010, the amount of supplementary information requested by the Budget Committee was about equal to the volume of the Report itself,

The CoA has prepared, for the first time in 2010, a regularity audit of the 2009 Government financial statements (Annual Report), which was adopted by Decision of the CoA on the 9th of July 2010. The requirement for preparing a regulatory audit, i.e. an attestation of the Government financial statements, results from Article 4 of the Law on the Court of Accounts, which requires and “assessment of the regularity, legality, conformity, economy, efficiency, and effectiveness in the management of public financial resources and public property”. Since the Law was only enforced as of 2009, that year is the first one for which a regularity audit has been carried out. It resulted in a clean opinion.

Further to a recent amendment of the Law on the CoA, the review of the CoA Annual Report by the Parliament shall be undertaken in October, together with the review of the Report on Budget Execution submitted by the Government and the Budget and Fiscal Policy document. According to Article 44 of the Law on Budgetary System and Budgetary Process, the Government shall submit the budget execution report for the State budget to the Parliament by the 1st of June, and the Parliament shall examine it and approve by Parliament Decision by the 15th of July. Article 44(8) stipulates that the review of the Budget execution report is carried out by a Parliamentary commission with participation of the concerned central public authorities. One single working group will be established for the three documents all together (instead of three working groups in the past) in order to improve policy consistence and efficiency.

It is a general practice, though not regulated by legislation, that the Plenary completes the review of the CoA Report within three months, and usually before the review of the Draft Annual Budget Law. This review results in the adoption of a Parliament Decision.

Such Parliament Decision was indeed adopted for the years 1996 to 2006, and recommendations were issued to the Government, whereas the 2009 Report was reviewed only by the Budget Committee but not reviewed in the plenary session, and the 2008 Report was reviewed in the plenary session but not voted, For both years, no Parliament Decision was adopted and no recommendations to the Government were issued. The reasons for this are of political nature.

[95] Previously 15 July. The amendment setting the new deadline for submission of the CoA Report to 10 October was adopted in July 2011, but not yet promulgated as of September 2011

[96] Committee for Economy, Budget and Finance

In addition to the Annual Report, the CoA submits other reports and, since February 2011, monthly reports to the Budget Committee which include reports of audit missions carried out (in total 151 reports since 2005). Whenever the Budget Committee considers that a topic is of significant public interest, it selects it for discussion in the plenary session. This was recently the case for allocations to the Ministry of Agriculture.

In spite of the political issues with the review of the 2008 and 2009 reports, it can be considered that the process of examination by the legislature is correct and timely.

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

As mentioned above, a working group is established to review the Annual Report of the CoA. Working groups are established as well on an ad-hoc basis, when there are topics of public interest in a monthly report, and the Budget Committee decides whether the topic should be further submitted to the plenary session. The Budget Committee meets on a weekly basis.

Hearings between the CoA and the Parliament take place annually to discuss the CoA Report (in July 2007; July 2008 and November 2009 for the Report of the previous year, respectively).There is however no evidence of hearings which include representatives of the audited entities or the public.

A public hearing between the Parliament and the CoA will be conducted for the first time in October 2011, based on the Swedish model, whereby the Members of Parliament will propose topics of interest for consideration by the CoA.

The practice described for this sub-dimension (i.e. the establishment of working groups) corresponds to the practice in most EU member states. It has only been operational since February 2011, when the CoA started to submit monthly reports. However, the scope of hearings is restricted and leaves room for improvement.

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

Further to the recommendations issued in the CoA Reports to the Parliament, the Budget Commission forms working groups on topics that are of public interest. In case the Committee identifies that the implementation of a recommendation requires amendment of legislation, the Committee issues a corresponding recommendation to the Plenary. This was the case for the Law on Metals. However, most of the audit recommendations relate to fiscal irregularities and are thus not a matter for discussion by the Parliament, but for regulation by the concerned institutions or for the law enforcement agencies.

Implementation by the executive is monitored by the CoA (see PI-26) and reported in the monthly and annual reports of the CoA to the Parliament. In cases of public interest, where recommendations have not been implemented in a timely manner, the topic may be submitted to the Plenary. The Budget Committee has to select the topics in order not to overload the Parliament.

The Members of Parliament have little experience in interpreting CoA reports, and capabilities in this regard still need to be strengthened. On the other hand, it has to be taken into account that there are still weaknesses in the contents of the CoA reports, whose focus is often on cases for the law enforcement agencies and not necessarily on topics of interest for a parliamentary discussion.

Comparison of 2011 and 2008

The main problem in the past, until 2009, was that the CoA did not yet operate according to international standards. The CoA was an inspection body, focused on fraud detection and did, on these grounds, not produce reports that were of interest for examination by the legislature (rather than cases for the Prosecutor). With the changes in the legislative and institutional framework of the CoA, and thus the re-orientation of its reports, the involvement of the Parliament should increase significantly, however capacities of the Members of Parliament in analysing the Reports are still underdeveloped. Political issues have furthermore blocked progress in 2008 and 2009.

An overall score of C+ is assigned which results mostly from a correction of the score of the 2008 assessment and from the reform perspective further to the mission change of the CoA into a SAI.

Developments in 2011

- A public hearing between Parliament and CoA in October 2011.

– The Parliament is supported by UNDP, and the CoA by the Swedish National Audit Office, in strengthening capacities for cooperation between the two institutions.

3.7 Donor practices

D-1. Predictability of Direct Budget Support

	Score (scoring method M1)	**D**
Dimension	**Minimum requirements**	
(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).	In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15%.	D
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	The requirements for score C (or higher) are not met.	D

(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).

Unlike the 2008 PEFA Assessment that was limited to grants, the present assessment also covers loans as instrument for direct budget support. The importance of loans, which contributed only 12 % of the total budget support in 2008, has grown to 52 % in 2010. The largest donors in regards to budget support are the European Union (with a focus on grants), the IMF and the WB (providing loans only).

Budget support programmes of the largest donors (EU, WB and IMF) are based on Financing Agreements[97]. Disbursement dates for the tranches are determined in the policy matrices and contingent on the achievement of the performance indicators. These qualitative and/or quantitative indicators are generally on annual (EU, WB) or semi-annual (IMF) basis. The target dates for disbursement, which are based on the commitment of the Government to fulfil the conditions within the agreed timeframe, are established for a specific quarter following the indicator review.

The best approach to gather ex-post information about the forecasts provided by donors is to assess the support budgeted in the Annual Budget Law[98] of the year in question and to compare it with the budget execution figures:

Table 25: Budget support 2008-10 (in million MDL)

Budget support	2008			2009			2010		
	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation
Grants									
European Union[99]	267.2	182.7	-32%	487.1	537.1	+10%	799.1	499.6	-38%
Government of the Netherlands	63.4	54.8	-14%	40		-100%	62.2	45.7	-27%
DFID	26.8	18.2	-32%	31	5.4	-83%	17.9	119.4	+567%
Other grants[100]		40.5							
Total grants	**357.4**	**296.2**	**-17%**	**558.1**	**542.5**	**-3%**	**879.2**	**664.7**	**-24%**
Loans									
World Bank	122.0	95.2	-22%	91.2	0	-100%	507.0	309.6	-39%
ÌMF							1,873.7	1,504.9	-20%
Government of Poland							188.0	191.6	+2%
Total loans	**122.0**	**95.2**	**-22%**	**91.2**	**0**	**-100%**	**2,568.6**	**2,006.1**	**-22%**
Total Budget support	**479.4**	**391.4**	**-18%**	**649.3**	**542.5**	**-16%**	**3,447.8**	**2,670.8**	**-23%**

Source: Annual Budget Laws and MoF budget execution reports

[97] This term is used for EU and WB agreements. The IMF uses the term "Memorandum on Economic and Financial Policies"
[98] Amendments not taken into account
[99] Excluding the Macro-Financial Assistance programme, which is a crisis balance-of-payments support operation launched in support of and subsequent to the adoption of the IMF ECF/EFF arrangement
[100] Humanitarian aid for resolving the consequences of the floods of 2008 and drought of summer 2007

The above table shows that there was a shortfall (difference between budgeted and disbursed funds in relation to budgeted funds) of over 15% in all three assessed years. This indicates that there are significant problems in predictability of budget support.

An analysis of the main deviation cases shows the following reasons:

Donor	Observation	Reason
European Union	Shortfall in 2008 and 2010	– Indicators not achieved – Delays of review missions, leading to delays in disbursement of tranches
Government of the Netherlands	Shift from 2009 to 2010	Precondition of having an agreement with WB was not met
DFID	Significant shortfall in 2008	Exchange rate
	Significant shortfalls in 2009	Conditions for budget support were not met (agreement with WB)
	Surplus in 2010	Not planned in the initial budget: – Budget support for regional development. – Additional budget support for social compensations for heating
WB	Loan in 2009 not disbursed	Precondition of having an agreement with the IMF was not met
	Shortfall in 2010	Restructuring of a part of the planned support, agreement only signed in 2011
IMF	Loan shortfall in 2010	Disbursements are contingent on the completion of programme reviews. Due to early parliamentary elections in November 2010, programme review was postponed to early 2011, and disbursement was thus only made in spring 2011.

This analysis demonstrates the following: Annual budget preparation is based on forecasts of expected disbursements. However, releases of budget support funds are subject to agreed conditions being met, particularly for the second and subsequent tranche releases. This in itself makes predictability problematic, because reasons for not achieving indicators may be that conditionality is unrealistic, external (macro-economic) factors may inhibit achieving conditionality, or the Government did not actually carry out the programme. Last but not least, bureaucratic obstacles on donor side for the disbursement have been mentioned by the MoF.

The conclusion is that conditions for disbursement may not be fulfilled for various reasons (whereby clear responsibilities cannot be always assigned), and this makes predictability problematic and explains the occurrence of shortfalls. Events such as the economic and financial crisis, changing politics in Moldova and the impact of government reform programmes have contributed to changing disbursement schedules.

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

The same observations as for dimension (i) can be made for in-year timeliness of disbursements. Disbursement of budget support grants is for the major part contingent on the achievement of indicators in policy matrices, in particular for the second and following tranches. This is a fundamental problem in predictability, as fulfilment can often not been foreseen.

The budget is prepared on annual basis. Whenever changes in the disbursement schedule become foreseeable, either due to non-achievement of indicators or external factors, this results in amendments of the Annual Budget Laws. A comparison of the disbursed amounts with the amended budgets shows that deviations are smaller than those in the above table (based on initial budgets), but still significant.

Scheduled disbursements by donors according to the quarterly due dates, based on the achievement of indicators, have in the majority of the cases not been made in a timely manner after conditions for disbursement were met.

One reason for the delays is that performance indicators are evaluated by in-year review missions, which sometimes are late and this results in late disbursement. In several instances disbursements of budget support have been made late in the last quarter of the fiscal year. In 2008, as much as 57.3 % of the total annual disbursements were made in December; and in 2010 67.8% were disbursed in December.

Comparison of 2011 and 2008

The main factors contributing to poor predictability in budget support remain the same as in 2008: Contingency of disbursements on the achievement of performance indicators in policy matrices, poor forecasting by donors and disbursement delays as a result of bureaucratic procedures. Predictability has marginally deteriorated since the 2008 PEFA and now has the lowest possible score.

Development 2011

There are no current developments relevant for improving the predictability of direct budget support.

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

	Score (scoring method M1)	**C+**
Dimension	**Minimum requirements**	
(i) Completeness and timeliness of budget estimates by donors for project support.	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, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification.	C
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.	B

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

The External Assistance Department in the State Chancellery collects forecast and disbursement data from donors on projects. The WB that accounted for some 70% of project aid received in 2010, provides reliable data on a regular basis. The WB uses a web-based information system for disbursement forecast available to its beneficiaries. The EC provides information on planned assistance under national indicative programmes (2007-2010, 2011-2013) The State Chancellery confirmed that this is satisfactory to be used for budgeting. The WB and EC are two most important donors in Moldova.

Other donor information on planned disbursements is provided, if at all, on an annual basis. Not all donors provide such information systematically, and the accurateness varies from year to year.

As part of the Monitoring of the Paris Declaration, DAC Surveys were carried out by the Government in 2008 and 2011, covering the years 2007 and 2010 respectively. These two DAC surveys include all large donors, covering both direct budget support and project support. The 2010 Survey included 25 donors and 93% of Moldova's Official Development Assistance (ODA), versus 20 donors covering 60% of received ODA in 2007[101]. However, although the DAC Surveys help Government monitor disbursements it is very difficult to ascertain whether systematic budget estimates have been provided by donors on project aid flows to assist Government in budget planning.

In addition, there are discrepancies between the figures provided by the MoF and the DAC Surveys. Reasons for this are that

- some donors do not provide information to the Government on their disbursements but did provide the figures for the DAC Surveys;

[101] Source: Draft DAC Survey 2011

– some donor funds do not reach Moldova. This is the case, for instance, for payments to foreign consulting companies in Technical Assistance projects. Generally, most of the Technical Assistance projects are not executed through the Treasury system.

A promising system for managing information on aid (project and direct budget support) is the *Integrated Database of External Assistance (IDEA),* re-launched[102] and upgraded in 2010 by the Government for collecting data on ODA (Official Development Assistance) planned and disbursed per year. Further development of this database is planned to provide information about the donors` medium -term (three to five years) ODA plans, though not on a quarterly basis. IDEA is quite comprehensive, since the inclusion of a project in the database is a prerequisite for VAT exemption. However IDEA is not entirely web-based and requires manual input of data by the State Chancellery's Aid Coordination Unit.

The composition and volume of project and programme aid received in 2008 to 2010 is shown below.

Table 26: Disbursed Project & Programme Aid 2008-10 in 1,000 USD

Donor	2008		2009		2010		
	Grant	Loan	Grant	Loan	Grant	Loan	Share 2010 (%)
WB	26,524	14,406	21,859	21,438	18,730	38,458	69
BEC		4,519		3,912		408	
EIB		1,273		10,625		5,108	
European Union	121		21,741		13,161		
Global Fund	3,212		7,184		8,811		11
IFAD		13,137	130	5,148	137	5,849	7
FKDEA						61	
SIDA	971		595		3,589		4
UNDP	136		68		23		
UNECE			22				
Government of the Netherlands					713		1
Government of USA					1,508		2
KfW		84		67			
UNICEF	149		153				
Government of Japan	3,005						
Total	34,119	33,419	51,752	41,191	46,672	49,883	

Source: MoF External Financing and Debt Department, based on information collected from donors (web-based WB system; confirmation of payment for other donors)

As mentioned above, this data is not complete and may, in some instances, be discrepant from the data presented in the respective DAC Survey.

On a general notice, the 2010 DAC Survey indicates, referring to direct budget support and project support all together, that 81% of donor aid is predictable. This reflects progress compared to the baseline score of 77% in 2008. The report reaches the same conclusion as the present assessment, namely that "not all external funding is reflected in government budgets and this particularly applies to technical cooperation and flows implemented without using Moldova's country financial management systems".

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

Concerns about procurement capacity have led in the past to the establishment of Project Implementation Units (PIUs), allowing donors to use their own systems and processes for procurement and fund management. Some, but not all, donor funded projects are implemented by PIUs, depending on the agreement of the donor with the particular beneficiary. PIUs present monthly reports on disbursements, expenditure and balance on the project account, as well as forecasts of

[102] IDEA was used earlier by the Ministry of Economy and Trade that was coordinating ODA before this responsibility was transferred to the State Chancellery

future disbursements. On the other side, some donors do not provide such information on a regular basis and only report on the total project amount.

The major part of projects managed by PIUs is that financed by the WB. According to the 2010 DAC Survey, only 18 PIUs are operating in 2010 (versus 59 in 2008), reflecting the shift from project support to budget support. As national systems improve, PIUs should no longer be necessary.

According to the above table, alone the World Bank provides 69% of total project and programme aid (which in this case refers to budget support) disbursements. Since the WB is the predominant source of project support this ensures that data is readily available through the web based information system. For investment projects financed from external sources there are budget annexes and budget execution reports with a break-down in compliance with the government budget classification.

Comparison of 2011 and 2008

Two DAC surveys based on 2007 and 2010 provide data on ODA amounts received and cover all large donors. The Government's database IDEA contributes to the availability project support data. However, many donors still do not provide disbursement estimates and reports on project support.

Developments in 2011

No current developments on donor reporting.

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

	Score (scoring method M1)	**C**
Dimension	**Minimum requirements**	
(i) Overall proportion of aid funds to central government managed through national procedures.	50% or more of aid funds are managed through national procedures (but less than 75%)	C

National procedures for financial management are used by donors almost only in case of direct budgetary support (IMF, EU, DFID and World Bank) and for loan or grant programmes reflected in the national public budget. For project support donors largely continue to impose their own procedures, in accordance with the terms established in the loan agreement In some cases (e.g. GIZ) donor procedures for procurement are partly aligned to national procedures.

In parallel with the growing share of direct budget support among the aid volume, assistance using the national procedures has grown significantly to about 60% in 2010 comparing to the 2008 level of about 30%.

In projects which are not funded through budget support, the national procurement system is generally not used. There have been reviews of national procurement systems by some donors (WB, SIDA and UN Agencies) which have been followed by increased use of those procedures. The WB's recent review has led to the use of national systems for domestic procurement, but not yet for international tenders.

The table below based on the DAC Survey 2010 shows the proportion of aid funds managed through national procedures for budget execution, reporting, auditing and procurement.

Table 27

2010 in 1,000 USD	Total disbursed	Use of national for procedures for			
		Budget execution	Reporting	Auditing	Procurement
Austria	1,900	29	0	0	29
Czech Republic	3,085	0	0	0	60
Estonia	298	0	0	0	0
Finland	203	0	0	0	0
France	150	0	0	0	0
Germany	4,140	0	0	0	0
Japan	726	0	0	0	0
Netherlands	0	0	0	0	0
Poland	665	0	0	0	0
Romania	900	816	816	816	816
Slovakia	461	0	0	0	0
Sweden	7,898	0	1,806	1,806	1,806
Switzerland	6,700	0	0	0	134
Turkey	3,900	0	0	0	0
United Kingdom	14,728	9,267	9,267	0	2,317
United States	22,118	2,000	2,000	2,000	2,000
Council of Europe Development Bank	408	0	0	0	0
European Union	124,613	110,980	110,980	110,980	110,980
GAVI Alliance	469	N/A	N/A	N/A	N/A
The Global Fund	18,377	0	8,764	0	0
IFAD	3,862	0	0	0	0
IMF	121,742	121,742	121,742	121,742	121,742
Kuwait Fund for Development	61	0	0	0	0
United Nations	27,493	2,021	25	25	1,752
World Bank	83,586	25,416	25,416	28,286	34,416
TOTAL	448,482	272,271	280,816	265,655	276,051
Percentage of total amount		61%	63%	59%	62%
Comparative figures for 2008	221,492	30%	30%	27%	27%

Source: Draft DAC Survey 2010 (31 March 2011)

As for all reporting on donor funds, there are discrepancies between the figures provided by the DAC Survey and those compiled from MoF sources (which, for instance, report a rate of use of national procedures of 53% for budget execution, 100% for reporting). In spite of this uncertainty, there is evidence that at least 50% of the donor funds are managed through national procedures.

Comparison of 2011 and 2008

Comparative figures of 2008 indicate that there has been significant rise in the use of national procedures. The reason for this is the significant increase of direct budget support (for which national procedures are consistently being used). For project support, donors continue to largely rely on their own procedures, in some cases partly aligned with national procedures.

Developments in 2011

No current developments.

4 PFM reform programme

The reform agenda for PFM is anchored in the National Development Strategy (NDS), adopted on the 21st of December 2007 by the Parliament. The Action Plan for the implementation of the NDS for 2008-2011, adopted by the Government, outlines the following actions and sub-actions relating to PFM:

- Improvement of the public finance management system:
    - Upgrade of the budget classification and unification of the chart of accounts to be GFS (State Finance Statistics) 2001 compliant,
    - Implementation of an integrated Financial Management Information System (FMIS),
    - Development and implementation of Public Internal Financial Control (PIFC), compliant with International Standards in Professional Practice of Internal Audit (ISPPIA),
    - Development of a legal and normative frameworks for internal audit and control,
    - Establishment of an internal control and internal audit function in the public sector,
    - Delivery of training in management, strategic planning, medium-term budget planning, macroeconomic forecasts, accounting, and designing of programme costs etc.
- Reforms in accounting and audit in line with international norms:
    - Alignment of accounting practices to recent national legislation provisions, EU requirements and international standards,
    - Alignment of audit activities to recently approved legislation and international standards.
- Creation and implementation of and IT system for electronic public procurement:
    - Elaboration and adoption of the normative framework for regulating electronic public procurement,
    - Launch of a pilot project to implement the IT system for public procurement.

The main PFM reforms outlined in the Action Plan for the implementation of the NDS are driven by the Public Financial Management Project, launched at the MoF in January 2006 and to be completed in December 2011, costing USD 17 million (of which 10.5 million for the FMIS and the rest for TA), financed by a USD 8.5 million World Bank loan and the rest by grant from SIDA and the Dutch Government. The project has four components:

- Improvement of budget planning and execution (methodologies and information systems): institutionalising the medium-term expenditure planning, modernising the budget classification and introducing a chart of accounts harmonised with GFS 2001 and implementing an integrated FMIS;
- Internal control and audit: developing a system of internal control and internal audit in the central government bodies. Part of this work is a review of the Law on Budget System which may incorporate elements of the PIFC regulations in a new version;
- Financial management training capacity and training;
- Project management, monitoring and evaluation.

The main results expected from this project are a legal basis for PIFC, a new budget classification, a single chart of accounts and the implementation of a new FMIS.

The legal basis for PIFC has been created by adoption of the Law on PIFC. Training in internal audit and budget management was provided to over 800 civil servants.

The new GFS 2001 compliant budget classification and a single chart of accounts have been developed and were originally expected to be used from the 1st of January 2012 for the 2013 budget preparation within the new FMIS. Relevant secondary legislation was enacted in August 2011. However, at the final stages of the 2011 PEFA assessment the team was informed that the new system would not be going live as planned. This comes to confirm concerns expressed by the IMF as well as by several officials of the MoF (see PI-5). International experience shows that integrated FMIS are highly complex and difficult to implement and that there is need for contingency planning to reduce risks on financial management.

Implementation of the new FMIS has already experienced considerable delay. Completion was initially planned for December 2009, and then postponed. Despite the delays, the detailed design specification for the software has finally been accepted in 2010, and the network infrastructure was reportedly delivered and tested. It now remains to be seen when the new system will eventually go live.

The existing FMIS of the MoF covers budget preparation, budget execution and reporting. There are 320 users in the central structure of the MoF and in the social funds and 294 in the Territorial Treasuries which are connected to the FMIS and can submit payments orders using electronic signature. Additionally, 300 users in the ATUs (including all rayons) have a connection to the FMIS which allows them to view account statements but not to execute transactions. Within the future FMIS, all institutions (including those at the lower level) will be able to submit payment orders through the system.

The new FMIS will cover budget preparation, budget execution, accounting, reporting and a data warehouse. Following a tender, Hewlett Packard was selected as integrator for software, hardware and infrastructure. The contract for the supply and installation of the FMIS, in the total amount of USD 10.5 million, was signed in March 2009. Implementation started in May 2009 and is delayed.

In the area of revenue collection, the reform of the two main revenue collecting authorities´ operations continues based on their respectively set objectives. STS focuses on improving the arrears collection and increased use of risk assessment and analysis; CS concentrates efforts on full implementation of simplified procedures and on endorsement of the legal basis for the post clearance audit.

With regards to debt management, the draft mid-term management strategy 2011-2013 which includes a fiscal risk analysis and indicators for risk monitoring was updated in 2011 in accordance with the macroeconomic conditions and has been adopted in July 2011.

Reforms in the area of internal and external audit are driven by Technical Assistance projects by the Swedish National Financial Management Authority and the Swedish National Audit Office, which aim at development of skills of internal auditors with regard to carrying out audit according to international standards, respectively, as well as by the World Bank in the area of performance and IT audit. An important milestone of the reform was achieved through the regularity audit which has been carried out by the Court of Accounts for the first time in 2010 by certifying the 2009 Government financial statements.

Reforms in the area of public procurement are driven by a Twinning project with the Romanian Government, aimed at legal approximation of EU standards and capacity development of the Public Procurement Agency. Achievements to date include the drafting of secondary legislation on unregulated procurement procedures and approximation of public procurement legislation to EU Directives.

Annex 1: Summary of PEFA 2008 and 2011 by Performance Indicator

	Indicator	Score 2011	Score 2008	Performance change
A. PFM OUT-TURNS: Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	C	Aggregate expenditure deviation was lower in the period under review than in the period examined by the 2008 PEFA assessment. Aggregate budgetary planning in the last three years has been more realistic than in the past. Revenue and expenditure over and/or under-estimations have been minimised. This is corroborated by the fact that the deviations between the appropriations in the 2008, 2009 and 2010 State Budget laws and the initial expenditure ceilings defined in the respective MTEFs has been considerably smaller than in the past. The improvement can be attributed to the commitment of the Government to a fiscal consolidation process. The introduction of the Treasury Single Account, which came to cover all public funds from the 1st of January 2008, can also be considered as having a considerable positive impact to budgetary control and discipline.
PI-2	Composition of expenditure out-turn compared to original approved budget	B+	A	The variance in expenditure composition has been substantially higher than in 2005, 2006 and 2007, mainly due to the continuous and substantive in-year increases in allocations to Agriculture. Other sectors also experienced considerable variances but did not reveal definitive increasing or decreasing trends. For instance, in 2008 expenditure on Transport was substantially increased during the year, while in 2009 it was substantially decreased. Despite higher composition variances the Government was able to maintain the overall hard budget constraint and keep relative discipline in the path to fiscal consolidation. Since 2010 State Budget Law an amount is allocated for the specific purpose of combating unforeseen natural disasters. The amount budgeted was under 3% of the overall original budget appropriation.
	(i) Variance in expenditure composition during last three years excluding contingency items	B	A	
	(ii) Average amount of expenditure charged to contingency	A	-	
PI-3	Aggregate revenue out-turn compared to original approved budget	B	A/C	In 2008 the old methodology was used to assess this indicator. If the new methodology were to be applied to the years reviewed by the 2008 PEFA, the score awarded would have been "C" due to the sharp over-performance of the revenue appropriations in 2005 and 2007. Therefore, the score "B" under the 2011 PEFA assessment constitutes an improvement in overall performance of revenue policy and administration.
PI-4	Stock and monitoring of expenditure payment arrears	A	A	No substantial changes, except minor improvements in monitoring of arrears, linked with the introduction of an additional template by the MoF in 2008 for reporting of arrears of CIFMA

	Indicator	Score 2011	Score 2008	Performance change
	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	A	A	
	(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	A	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	B	C↑	There are no major differences between the periods covered by the 2008 and 2011 PEFA assessments. The difference in score from the assessment of 2008 is not about content but a reflection of the fact that the incumbent system did indeed cover the basics of an administrative, economic and functional classification required by the relevant PEFA criterion. A GFS 2001 compliant Chart of Accounts and budget classification is to take effect as soon as the new FMIS goes live.
PI-6	Comprehensiveness of information included in budget documentation	A	A	No change.
PI-7	Extent of unreported government operations	A	B+	The number of *Special Funds* was reduced from nine in 2007 to four in 2010. The ones that remained in the 2010 appropriation were: the *Textbook Fund* (managed by the Ministry of Education worth MDL 33.3 million) funded by rental fees paid by parents, the *Social Assistance Fund* worth MDL 88 million, and two ecological funds for national and local level of a total of MDL 154.9 million. It is planned to integrate these funds in due course. In the 2008 PEFA calculations were based only on grants and the extent to which these where included in reports. In 2011 PEFA both grant and loan investment projects to the government sector are taken into account as required by the guidelines. It is not possible to ascertain whether this constitutes an improvement or whether there was no change since 2008 PEFA.
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	A	A	
	(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	A	B	

	Indicator	Score 2011	Score 2008	Performance change
PI-8	Transparency of inter-governmental fiscal relations	A	A	No major changes, except disruptions in 2011 budget preparation process that led to deterioration of dimension (ii) due to local governments not always being given timely and/or reliable information to prepare their budgets in due time.
	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	A	A	
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	B	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.	A	A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	B+	C+↑	The main change is related to dimension (i). The MoF now produces a comprehensive and consolidated report on the finances of SEs and JSCs derived from audited financial data following the promulgation of the Law on Audit Activity. The MoF has an adequate oversight of fiscal risk, which should be improved over time through increasing relevant skills and capacity and the introduction of IFRSs.
	(i) Extent of central government monitoring of AGAs and PEs.	B	C↑	
	(ii) Extent of central government monitoring of SN governments' fiscal position.	A	A	

	Indicator	Score 2011	Score 2008	Performance change
PI-10	Public access to key fiscal information	A	A	No change.
C. BUDGET CYCLE				
C(i) Policy-based Budgeting				
PI-11	Orderliness and participation in the annual budget process	B	A	The deterioration compared to the 2008 PEFA assessment (dimensions ii and iii) is not systemic; it is attributed primarily to the political instability that affected the preparation process of the 2010 and 2011 Budget. The 2010 State Budget preparation process was largely done on the basis of informal consultations and agreement between the MoF and line ministries, which proved effective in the absence of political stewardship. The 2011 State Budget was approved 3 months inside the 2011 fiscal year.
	(i) Existence of and adherence to a fixed budget calendar	B	B	
	(ii)Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	B	A	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	C	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	B↑	The improvements in performance is attributed to: Clearer links between multi-year estimates and subsequent setting of annual budget ceilings, evidenced by smaller than in the past deviations between the appropriations of the 2008 and 2009 and 2010 State Budget laws and the initial expenditure ceilings defined in their respective MTEFs (dimension i); The increase in the number of sector strategies covered by the MTEF with the total of 84% having been costed (dimension iii).
	(i) Preparation of multi -year fiscal forecasts and functional allocations	B	C↑	
	(ii) Scope and frequency of debt sustainability analysis	A	A	
	(iii) Existence of sector strategies with multi-year	A	B	

	Indicator	Score 2011	Score 2008	Performance change
	costing of recurrent and investment expenditure;			
	(iv) Linkages between investment budgets and forward expenditure estimates.	B	B	
C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	A	A	Legislative acts are available to taxpayers and traders from several sources including the websites of STS, CS and MoJ. Most of the legal acts have been revised and partially completed during the years 2008-2010. The appeal filing has been made slightly more user friendly, however not changing the private sector's perception of the process (im)partiality.
	(i) Clarity and comprehensiveness of tax liabilities	A	A	
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A	A	
	(iii) Existence and functioning of a tax appeals mechanism.	B	B	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A	B+↑	Increased VAT registration threshold and increased pre VAT registration controls reduced substantially the number of pseudo (ghost) entities. STS substantially improved the effective outcome of systematic documentary controls and introduced risk based compliance management approach. CS introduced post audit clearance and simplified procedures.
	(i) Controls in the taxpayer registration system.	A	A	
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes.	B	C↑	

	Indicator	Score 2011	Score 2008	Performance change
PI-15	Effectiveness in collection of tax payments	D+	D+	Arrears remain a serious concern, especially since there is a recorded increasing trend in the stock of arrears. STS has improved the collection process through continued monitoring of the non-complying taxpayers and enforcing measures to resolve tax debt. A new component in the IT system has been developed to improve arrears management. CS related arrears are almost insignificant. Payments are made to the TSA, but mainly technical issues cause substantial amount of error-hit transactions. Reconciliation is timely, but limited to the paid amounts and not taking into account the tax assessments.
	(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).	D	D	
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	A	
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	B	A	
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+	No major changes with the exception of a clear improvement in dimension (i). The Treasury now prepares weekly aggregate cash forecasts.
	(i) Extent to which cash flows are forecast and monitored.	A	C	
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	C	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	A	A	

	Indicator	Score 2011	Score 2008	Performance change
PI-17	Recording and management of cash balances, debt and guarantees	A	B+	The main progress consists in the elaboration of a medium term debt management strategy. This, together with the correction of the 2008 scoring on sub-dimension (ii), has improved the score.
	(i) Quality of debt data recording and reporting	A	A	
	(ii) Extent of consolidation of the government's cash balances	A	B	
	(iii) Systems for contracting loans and issuance of guarantees.	A	B	
PI-18	Effectiveness of payroll controls	B+	Line Ministries B+ (Primary School Teachers D+)	The present assessment does not differentiate between line ministries and primary school teachers for this indicator (as it was made in the 2008 assessment), since such differentiation is inadequate. The main change consists of the introduction of a monitoring system for employee numbers and costs by the MoF in 2009 which allows the MoF to control the number of civil servants and related costs against budget limits for headcounts and costs, and thus to monitor, inter alia, decrease of personnel in the context of policy measures such as the Education Reform.
	(i) Degree of integration and reconciliation between personnel records and payroll data.	B	B (D)	
	(ii) Timeliness of changes to personnel records and the payroll	A	A	
	(iii) Internal controls of changes to personnel records and the payroll.	B	A (C)	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost	B	B	

	Indicator	Score 2011	Score 2008	Performance change
	workers.			
PI-19	Transparency, competition, and complaints mechanism in procurement	B	B	Only few changes (relevant to this assessment) have occurred since 2008. These consist in a modification of the functions of the PPA (former AMPPHRA), abolishing its responsibility for the procurement of material reserves, and secondly in the enactment of some secondary legislation on implementation of the law. The 2008 assessment was based on a different set of sub-dimensions. Comparison is therefore only possible to a very limited extent. The new requirement for assessing the existence of an independent complaints review body provides for a drawback in scoring, which on the other side is compensated by a high score of the, also new, sub-dimension on public access to information. *NB. In 2008 the minimum requirements (dimensions) were as follows:* *(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).* *Assessment in 2008 PEFA: B* *(ii) Extent of justification for use of less competitive procurement methods* *Assessment in 2008 PEFA: C* *(iii) Existence and operation of procurement complaints mechanism* *Assessment in 2008 PEFA:B*
	(i)Transparency, comprehensiveness and competition in the legal and regulatory framework	B	-	
	(ii) Use of competitive procurement methods.	B	-	
	(iii) Public access to complete, reliable and timely procurement information	A	-	
	(iv) Existence of an independent administrative procurement complaints system m	D	-	
PI-20	Effectiveness of internal controls for non-salary expenditure	B+	B	There has been no change in procedures and systems to date. The new FMIS will include a fully developed commitment management system.
	(i) Effectiveness of expenditure commitment controls.	B	B	
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	B	
	(iii) Degree of compliance with rules for processing and recording transactions.	A	B	

	Indicator	Score 2011	Score 2008	Performance change
PI-21	Effectiveness of internal audit	C+	C+↑	The successful move from the inspection system and the concept of a centralized internal audit service (in force during the 2008 Assessment) to the PIFC concept, in line with the requirements of EU partnership agreements, represents a significant progress. Important milestones in establishing the legal and methodological framework for PIFC have been achieved. Some internal audit units, e.g. in the MoF and SSIB, already show high standards. However, coverage is still low since half of the IA units are not operational yet, and most auditors still lack experience. A score raise would have been logical, considering the progress made, however the score assigned in 2008 does not leave room for that.
	(i) Coverage and quality of the internal audit function.	C	C↑	
	(ii) Frequency and distribution of reports	B	C	
	(iii) Extent of management response to internal audit findings.	B	A	
C(iii) Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	A	A	No change
	(i) Regularity of bank reconciliations	A	A	
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	A	A	
PI-23	Availability of information on resources received by service delivery units	A	B	No significant changes in procedures or reporting systems. The score of 2008 is herewith corrected.
PI-24	Quality and timeliness of in-year budget reports	C+	C+	There was no substantial change in the production of budget execution reports since the 2008 assessment, but the new FMIS will include a module for commitment management providing also for reporting on commitments. There is evidence that development of this system has already progressed far.
	(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	
	(ii) Timeliness of the issue of reports	A	A	
	(iii) Quality of information	A	A	

	Indicator	Score 2011	Score 2008	Performance change
PI-25	Quality and timeliness of annual financial statements	C+	C+	There was no substantial change in the production of financial statements since the 2008 assessment. Although the introduction of a new chart of accounts and GFS 2001 as of January 2012 is already in a testing phase, there are not enough grounds to raise the overall score.
	(i) Completeness of the financial statements	A	C	
	(ii) Timeliness of submission of the financial statements	A	A	
	(iii) Accounting standards used	C	C	
C(iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	B+	C+	The CoA has successfully completed the shift from external financial control to regularity audit, with a new legal basis established in accordance with international standards. Strong support by the Swedish National Audit Office has contributed to develop the methodological framework and the skills of auditors. The main shortcoming is the lack of capacities.
	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	B	C	
	(ii) Timeliness of submission of audit reports to legislature.	A	A	
	(iii) Evidence of follow up on audit recommendations.	A	A	
PI-27	Legislative scrutiny of the annual budget law	B+	B+	No change.
	(i) Scope of the legislature's scrutiny.	B	B	
	(ii) Extent to which the legislature's procedures are well-established and respected.	B	B	
	(iii) Adequacy of time for the legislature to provide a response to budget	A	A	

	Indicator	Score 2011	Score 2008	Performance change
	proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).			
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B	B	
PI-28	Legislative scrutiny of external audit reports	C+	D	The main problem in the past, until 2009, was that the CoA did not yet operate according to international standards. The CoA was an inspection body, focused on fraud detection and did, on these grounds, not produce reports that were of interest for examination by the legislature (rather than cases for the Prosecutor). With the changes in the legislative and institutional framework of the CoA, and thus the re-orientation of its reports, the involvement of the Parliament should increase significantly, however capacities of the Members of Parliament in analyzing the Reports are still underdeveloped. Political issues have furthermore blocked progress in 2008 and 2009. The improved score results mostly from a correction of the score of the 2008 assessment and from the reform perspective further to the mission change of the CoA into a SAI.
	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	A	D	
	(ii) Extent of hearings on key findings undertaken by the legislature.	C	D	
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	D	
D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	D	D+	The main factors contributing to poor predictability in budget support remain the same as in 2008: Contingency of disbursements on the achievement of performance indicators in policy matrices, poor forecasting by donors and disbursement delays as a result of bureaucratic procedures.
	(i) Annual deviation of actual budget support from the	D	C	

	Indicator	Score 2011	Score 2008	Performance change
	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)	D	D	
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	C+	D+	The Government's database IDEA has improved the flow of data on project support. The WB and EC, the two most important donors in Moldova provide timely and relevant information. However, many donors still do not provide disbursement estimates and reports on project support.
	(i) Completeness and timeliness of budget estimates by donors for project support.	C	C	
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	B	D	
D-3	Proportion of aid that is managed by use of national procedures	C	D	Comparative figures of 2008 indicate that there has been significant rise in the use of national procedures further to the significant increase of direct budget support (for which national procedures are consistently being used). For project support, donors continue to largely rely on their own procedures, in some cases partly aligned with national procedures.

Annex 2: Persons consulted

Ministry of Finance

Veaceslav NEGRUTA	Minister of Finance
Victor BARBANEAGRA	Deputy Minister of Finance
Veaceslav MAMALIGA	Advisor to the Minister of Finance
Vasile BULICANU	Head of General Directorate on Budgetary Synthesis
Valentina BASOC	Deputy Head of Directorate on State Budget and National Public Budget
Liuba IVANCIUCOVA	Head of Directorate on State Budget and National Public Budget
Ala CISLARU	Head of Directorate on Budgets of Administrative-Territorial Units
Nina LUPAN	Director of State Treasury
Olga IGNAT	Deputy Director of State Treasury
Angela VORONIN	Deputy Director of State Treasury
Maxim CIOBANU	Head of Cash Flow Management Section, State Treasury
Liuba BUCIUSCANU	Head of Chisinau Territorial Treasury (Municipal Budget)
Stella VORONA	Deputy Head of Directorate on Reports of the Public National Budget, State Treasury
Svetlana NEAGU	Head of Directorate on Development of the Treasury System and of the Accounting Methodology in the Budgetary Sector, State Treasury
Nadejda SLOVA	Head of Directorate on Reports of the Public National Budget, State Treasury
Valerian BINZARU	Head of Directorate on Finances of National Economy, Capital Expenditure and Public Procurement
Anastasia CERTAN	Head of the General Directorate on Tax and Customs Policy and Legislation
Nina ROTARU	Head of Directorate on Coordination and Consolidation of Budgetary and Taxation Policies
Dina ROSCA	Deputy Head of Directorate on Coordination and Consolidation of Budgetary and Taxation Policies
Elena DIMITRIU	Head of Directorate on Analysis and Monitoring of Personnel and Public Sector Employees Expenditure
Livia JANDIC	Head of Internal Audit Directorate
Ion SIRBU	Head of Directorate on Harmonisation of the Public Financial Internal Control System
Elena MATVEEVA	Head of General Directorate on Public Debt
Olga MEREUTA	Deputy Head of External Financing and Debt Directorate
Emilia PRUJANSKAIA	Head of Directorate on Prognosis and Macro-Financial Analysis
Veronica URSU	Head of Directorate on Financial Monitoring and Analysis
Elena SAHARNEAN	Manager of State Enterprise “Fintehinform”
Ion CHICU	Public Finance Management Project
Elena MARCENCO	Public Finance Management Project
Elena PLAMADEALA	Consultant, Chisinau Territorial Treasury

Main State Tax Service

Gheorghe COJOCARI	Deputy Director
Ana VITIUC	Deputy Director
Andrei ONOFREI	Head of Taxpayers’ & Incomes’ Evidence and Arrears Management Department

Roman COJOCARU	Public Relations, International Cooperation and European Integration Department
Vitalie COCEBAN	Manager of State Entreprise “Fiscservinform”
Customs Service	
Sergiu BEIU	Head of Directorate on Information Technologies and Customs Statistics
Natalia CIUMACENCO	Head of Directorate on Tariff and Non-Tariff Regulations
LilianaTARABURA	Head of Customs Revenues Section
Violeta BULGARU	CS
Mariana POPOVICI	CS
Public Procurement Agency	
Stefan CREANGA	Director, Public Procurement Agency
Ghenadie GRIB	Deputy Director, Public Procurement Agency
Natalia POSTOLACHE	Head of Statistics Directorate
Flory-Clara CALIN	Resident Twinning Adviser, Support to the Public Procurements System
Stefan CONDREA	National consultant on e-Procurement to Public Procurements Agency, UNDP
Financial Control and Revision Service	
Diana GROSU-AXENTI	Director
Ion BORTA	Deputy Director
Valentin CUJBA	Head of Directorate on Local Public Finance
Parliament	
Veaceslav IONITA	MP, Chairman, Parliamentary Committee on Economy, Budget & Finance
Court of Auditors	
Serafim URECHEAN	Chairman
Gheorghe TROCIN	Member of CoA
Ecaterina PAKNEHAD	Member of CoA
Natalia TROFIM	Director, Audit Department I
Lidia TOMOZEI	Head of International Relations Service
National Bank of Moldova	
Igor MUNTEANU	Director, Department of Payments System
Vasile MUNTEANU	Deputy Director, Department of Payments System
Veronica VOLOCIUC	Head of Directorate on Foreign Exchange Operations, External Relations European Integration
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Ministry of Education	
Ion SOBARI	Head of Directorate on Economic, Patrimony and Finance Policy
Ministry of Labour, Social Protection and Family	
Tudor CIOBANAS	Head of Economy and Finance Directorate
Ministry of Health	
Lilia GANTEA	Head of Directorate on Budget and Finance Policies
Igor BANARI	Head of Internal Audit Service

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State Social Insurance Fund (SSIF)	
Maria BORTA	Chairwoman
Elena COSTIN	Head of General Directorate on Finance
Angela JUC	Head of Statistics and Organizational Expenditures Section
Zinaida MANTALUTA	Head of Planning Directorate
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Lena TIBIRN	Deputy Head of Internal Audit Directorate
Compulsory Insurance Funds for Medical Assistance (CIFMA)	
Mircea BUGA	General Director
Ecaterina REBEJA	Head of Accounting Directorate
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EU High Level Policy Advice Mission	
Jan MARUSINEC	Advisor to the Minister of Finance
Leonidas CRISCIUNAS	Local Advisor to the EU High Level Policy Advice Team
Dorel FRONEA	Advisor to the Director of the Customs Service
Eugene STUART	Advisor to the Head of the Public Procurements Agency
International Monetary Fund	
Tokhir MIRZOEV	IMF Resident Representative to the Republic of Moldova
The World Bank	
Lilia RAZLOG	Public Sector and Institutional Reforms, World Bank, Moldova Country Office
United States Agency for International Development	
Douglas MUIR	Director, USAID/BIZTAR Project
Liliana AGARCOVA	Tax Adviser, USAID/BIZTAR Project
German Agency for International Cooperation (GiZ)	
Philipp JOHANNSEN	GiZ Country Representative and Project Manager – Modernization of Local Public Services in the Republic of Moldova

Annex 3: Documents Consulted

LEGAL FRAMEWORK

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Annex 4: Disclosure of Quality Assurance Mechanisms

PEFA Assessment Management Organization

- Oversight Team – Chair and Members:

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  Mr. Giedrius Sidlauskas (Directorate-General for Economic and Financial Affairs, EC)

  Mr. Oleg Hirbu (EU Delegation to Moldova)

- Assessment Manager: Mr. Oleg Hirbu (EU Delegation to Moldova)
- Assessment Team Leader and Team Members:

  Mr. Yiannis Hadziyiannakis –Team Leader contracted by DG ECFIN

  Mr. Gnel Sedrakyan

  Direct input provided by the team contracted by DG ECFIN: PIs under components A,B and C(i) as well as PIs 16 and 27

  Ms. Ilse Schuster – Leader of team contracted by the EU Delegation

  Mr. Peter Menhard

  Mr. Ion Osoian

  Direct input provided by the team contracted by the EU Delegation: PIs under components C (ii, iii, iv) and D, excluding PIs 16 and 27

Review of Terms of Reference

- Date of reviewed draft terms of reference: 3 June 2011
- Invited reviewers:

  Mrs. Elena Nikulina (World Bank)

  Mr. Andreas Papadopoulos (Directorate-General for Economic and Financial Affairs, EC)

  Mr. Giedrius Sidlauskas (Directorate-General for Economic and Financial Affairs, EC)

  Mr. Luca Vieyra Oriani (Directorate-General for Development and Cooperation, EC)

  Mr. Vasile Bulicanu (Director for Budget, Ministry of Finance)

- Reviewers who provided comments:

  Mr. Vasile Bulicanu (Director for Budget, Ministry of Finance) – April 2011

  Mrs. Elena Nikulina (World Bank) – 21 April 2011

  Mr. Luca Vieyra Oriani (Directorate-General for Development and Cooperation, EC) – 28 April 2011

  Mr. Andreas Papadopoulos (Directorate-General for Economic and Financial Affairs, EC) – 1 June 2011

  Mr. Geidrius Sidlauskas (Directorate-General for Economic and Financial Affairs, EC) – 14 June 2011

- Date(s) of final terms of reference: 20 June 2011

Review of the Assessment Report

- Date(s) of reviewed draft report(s):

1st review – 19-30 September 2011

2nd review – 19-31 October 2011

- Invited reviewers:

  Ms. Helena Ramos (PEFA Secretariat)

  Mrs. Elena Nikulina (World Bank)

  Mr. Robert Gielisse (Directorate-General for Budget, EC)

  Mr.Jose Nunes Correia (Directorate-General for Development and Cooperation, EC)

  Mr. Luca Vieyra Oriani (Directorate-General for Development and Cooperation, EC)

  Moldovan authorities (Ministry of Finance, Court of Accounts, Parliament Committee for Economy, Budget and Finance)

- Reviewers who provided comments:

  Moldovan authorities (Ministry of Finance, Court of Accounts, Parliament Committee for Economy, Budget and Finance) – 19-30 September 2011

  Mrs. Elena Nikulina (World Bank) – 20 September 2011

  Ms. Helena Ramos (PEFA Secretariat) – 19 October 2011

  Mr. Robert Gielisse (Directorate-General for Budget, EC) – 19 October 2011