# Debt Management Performance Assessment (DeMPA)

## Moldova

## December 2018

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 14 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

## Glossary

| | |
|---|---|
| ARU | Analysis and Risk Unit of the PDD |
| BES | Book-Entry System |
| BIS | Bank for International Settlements |
| COA | Court of Accounts |
| DeM | Debt Management |
| DeMPA | Debt Management Performance Assessment |
| DMFAS | Debt Management and Financial Analysis System |
| DSA | Debt Sustainability Analysis |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IOSCO | International Organization of Securities Commissions |
| LIT | Law on International Treaties |
| MoF | Ministry of Finance |
| MTBF | Medium-Term Budget Framework |
| MTDS | Medium-Term Debt Management Strategy |
| MoU | Memorandum of Understanding |
| NBM | National Bank of Moldova |
| PD | Primary Dealer |
| PDD | Public Debt Directorate |
| PFM Act | Public Financial Management Act |
| TSA | Treasury Single Account |
| UNCTAD | United Nations Conference on Trade and Development |

## Executive Summary

A joint World Bank mission undertook an assessment of the government's debt management capacity and institutions in Moldova during July 9-17, 2018. The mission comprised Lars Jessen, Lilia Razlog, and Juan Carlos Vilanova (all World Bank), and Vanessa de Thorpe (UNCTAD). The objective of the mission was to assess the debt management strengths and areas in need of reform through the application of the Debt Management Performance Assessment (DeMPA) methodology.

The DeMPA mission delivered an evaluation of the legal, institutional and regulatory framework in government debt management. The primary counterpart was the Public Debt Directorate (PDD) of the Ministry of Finance (MoF). The mission had meetings with entities within MoF and National Bank of Moldova, Ministry of Foreign Affairs, the Court of Accounts, Primary Dealers and Grawe Carat Insurance Company. The team briefed Mr. Octavian Armasu, Minister of Finance at the time of the mission, and Mr. Ion Chicu, former General State Secretary, currently Minister of Finance, about preliminary conclusions of the DeMPA evaluation and next steps in reform formulation and implementation process.

Compared to the previous DeMPA assessment undertaken in 2008, impressive progress is observed in a number of areas. These include the quality and annual update of a medium-term debt management strategy and borrowing plans and procedures for external borrowing. Areas that have digressed or not improved include coordination with fiscal policy and debt sustainability analysis, and cash flow forecasting and cash management. The table below summarizes the findings.

| **Strengths** | **Areas for Improvement** |
|---|---|
| **1. Governance and Strategy Development** | |
| • Legal foundation for borrowing and related debt management activities is well grounded<br>• All government borrowing and issuance of loan guarantees done by PDD in the MoF and steered by DeM strategy<br>• Strategy developed by PDD, approved by the Cabinet<br>• Good quality of annual report to Parliament and statistical bulletins that are available online | • Low frequency and limited coverage of internal audits |
| **2. Coordination with Macro Policy** | |
| • Clear separation of monetary policy and debt management instruments | • Accuracy of debt service forecasts can be improved |

| Strengths | Areas for Improvement |
|---|---|
| • Formalized relationship between MoF and NBM (MoU and Fiscal Agent Agreement)<br>• No access to NBM funding and no NBM participation in primary market | • Risk scenarios are not applied to debt service forecasts<br>• Debt Sustainability Analysis not undertaken |
| **3. Borrowings and Related Activities** | |
| • Domestic funding is market based, and quarterly borrowing calendars are published and adhered to<br>• Borrowing procedures available online<br>• Quarterly meetings with market participants<br>• Borrowing plan is prepared for external and domestic borrowing, and terms and conditions are updated on an ongoing basis<br>• Legal advisors involved throughout negotiations | |
| **4. Cash Flow Forecasting and Cash Balance Management** | |
| • A Treasury Single Account is in place<br>• Cash forecasts are prepared for the year on a monthly, weekly and daily basis | • Quality of forecasts cannot be evaluated since ongoing comparison between forecasts and actuals is not undertaken |
| **5. Debt Records and Operational Risk Management** | |
| • Effective procedures, recording and validation, and control of recording systems are in place<br>• Complete and updated external and domestic debt records<br>• Debt recording systems backed-up regularly | • Off-site data back-ups not in place<br>• Continue capacity building and training<br>• Review of documented procedures to be formalized |

# Background and Government Debt

## 2.1 Economic Background

Growth remained robust reaching 4.5 percent in 2016 and 4.7 percent in 2017, mainly led by strong increase in disposable income, driven by remittances and public and private wage increases. Additionally, the tax cuts introduced before the latest elections further supported growth, reaching 4 percent in the first three quarters of 2018. On the back of lower inflation, favorable interest rates and double-digit increase in public investments underpinned investment growth. As a result, the contribution from gross capital formation totaled 4 percentage points, while private consumption added another 2.7 percentage points. With strong domestic demand and stronger currency (Leu), imports expanded quicker (+8.9 percent), resulting in a negative contribution to growth (-2.6 percentage points) from net exports. On the production side, favorable financial conditions and government programs in the sector, expanded the construction sector adding 1.2 percentage points to growth. The growth in disposable income supported the wholesale and retail trade, which combined with industry added another 2 percentage points to growth. After two years of positive yields, the agricultural sector subtracted 0.3 percentage points.

Due to robust imports, in the first three quarters of 2018 the current account deficit increased to 10.3 percent of GDP, from 8.3 percent in 2017. With FDI inflows account for 2.1 percent of GDP, while external debt remained the main source of current account deficit financing. Against this background, by end-February 2019 foreign reserves amounted to 2.9 billion, after reaching a record high of 3.05 billion USD in November 2018, still covering more than 5 months of imports.

On the back of appreciation, inflation continued reducing, driven by lower regulated and food prices. Consumer inflation has been below the lower target of the corridor of 5 percent (+/- 1.5 percent) since April 2018. The decline is against a high base effect, lower administrative prices, good agricultural yield and lower imported inflation. As a result, consumer inflation averaged in 2018 was record low at 3 percent.

Monetary policy was geared toward supporting lending activity but hampered by continued excess liquidity. Authorities maintained the reserve requirement to a record high of 40 percent, while keeping the base rate at 6.5 percent since end-2017. However, the recovery in deposits and forex market interventions conducted by the NBM contributed to persistent excess liquidity. The Leu strengthened against USD during 2018, supported by remittances and export growth.

Overall, commercial banks' assets are over 50 percent of GDP, with liquid assets representing over 50 percent of total assets. Albeit, limited pass-through of the monetary policy rates to commercial interest rates, and tighter prudential standards in the banking sector, credit growth to the private sector rebounded after the 2015 banking fraud increasing 4.1 percent in 2018. . The reported capital adequacy ratio in the banking system remains high, at more than 30 percent (compared to the prudential requirement of 16 percent).

Despite of recent Parliamentary elections, the fiscal position remains solid, registering a lower than expected fiscal deficit. In 2018, mainly due to better compliance, government fiscal revenues registered strong nominal year-on-year increase (+9.2 percent). Income tax increased by almost 21 percent.

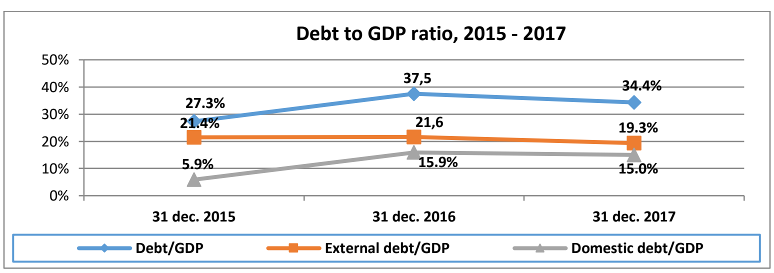
Buoyant foreign trade is also reflected in strong collections of value added tax (VAT) (about +10 percent). The fiscal deficit reached 0.8 percent in 2018, lower than forecasted at budget planning stage. Albeit an expansionary fiscal stance due to recent Parliamentary elections, in 2019–2020, fiscal deficits are projected to remain below 3 percent of GDP ensuring fiscal sustainability. In the medium term, the Government is expected to gradually reduce recurrent spending to create space for public investment.

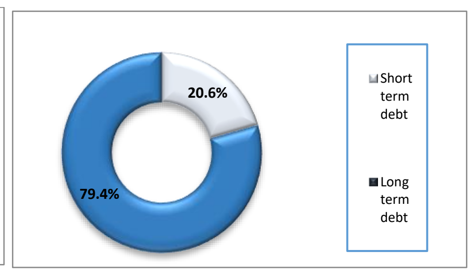
According to the Joint IMF-World Bank Debt Sustainability Analysis (DSA), Moldova’s public debt is expected to remain sustainable but some risks for private sector external debt persist in the near term. Moldova’s total external debt, public and private, reached 86.7 percent of GDP by end-2017, down from 97.2 percent of GDP at end-2016. The reduction largely reflects the strong appreciation of the nominal exchange rate during 2017 (by an estimated 11.3 percent) amid renewed capital inflows. According to the MoF data, private external debt is relatively high for a low- income country and amounts to 48 percent of GDP. Public and publicly guaranteed (PPG) external debt is held mainly by multilateral and bilateral donors, and is mostly medium and long term, and on concessional terms.

The total PPG debt-to-GDP ratio is projected to decline to 30 percent of GDP[1] at end 2018, largely reflecting a reduction in external debt. Domestic debt increased rapidly during 2015 and 2016 due to the issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector. The DSA emphasizes the importance of prudent fiscal and borrowing policies. It also notes that advancing structural reforms continues to be necessary to ensure debt sustainability.

## 2.2 Central Government debt

At the end of September 2018, , the government debt of Moldova amounted to 51,561.9 million lei or approximately 27 percent of GDP. The government debt portfolio is dominated by long term debt, which represents almost 80 percent of the total debt. Short-term debt is concentrated in domestic T-bills, which represent more than 80 percent of the outstanding domestic debt instruments issued in the primary market, complemented by small volumes of fixed and variable interest rate T-bonds with maturities of 1, 2, and 3 years.




Source: MOF MTDS 2018-2020

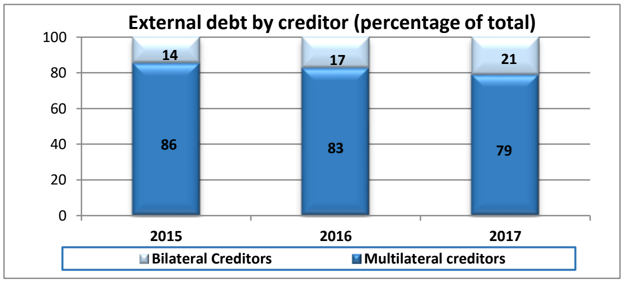
Mainly due to materializing government guarantees for loans to failed local banks, local currency debt increased during the last two years, but was on a declining path throughout 2018 due to stronger revenues. In 2016, a special law converted the public guarantees on the emergency loans to the banking

[1] The reference is based on 2017 methodology for GDP calculation used as reference across this report. Adjustment of the GDP calculation were introduced by the government later in 2018.

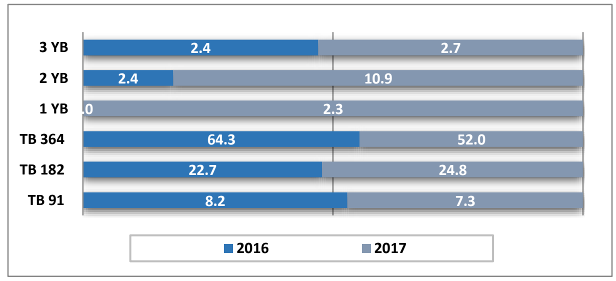
sector into state securities worth MDL 13.3 billion (about 10 percent of 2016 GDP) for 25 years with a 5 percent average interest rate.

The portfolio is subject to exchange rate risk, as 56 percent of the central government debt is denominated in foreign currency. SDR represents the highest share, followed by EURO. Composition of external debt reflects dominance of long term concessional and semi- concessional loans.

External debt by creditor (percentage of total)




Domestic debt by instruments (percentage of total, primary market)

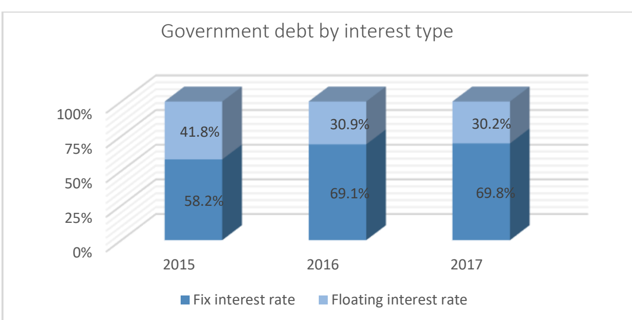


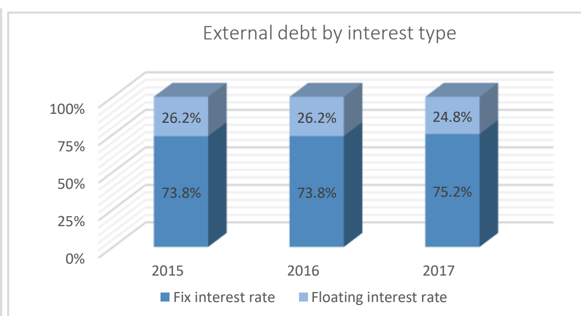

Source: MOF MTDS 2018-2020

Domestic debt is exposed to interest rate risk, as 38.9 percent of domestic debt is due for refinancing during one year. Thus, an increase in interest rates on short term securities can directly affect the costs of the portfolio.

For external debt, interest rate risk is moderate due to high share of long-term, fixed rate debt. The debt with the interest rate to be re-fixed within one year constitutes about 30 percent of outstanding. The average time to re-fixing for FX debt is, on average, over 7 years.

As for the total debt, although the refinancing period is approximately 8 years, 34.0 percent of it is to be re-priced at new interest rates over a year, thus highlighting the exposure to the interest rate risk.




Source: MOF MTDS 2018-2020

In order to reduce the potential risks of the unpredictability of the domestic financial market, namely the refinancing risk, and improve the profile of the public sector debt, during 2017 the Ministry of Finance (MoF) created a liquidity reserve of Lei 2.0 billion. To create the liquidity reserve, the MoF issued Government Bonds with fixed interest rate for 1 and 2 years amounting to 508.9 million lei. The respective funds were placed in term deposits with the NBM for a period equal to the circulation term of the Bonds and at the interest rate equal to the weighted average interest rate of the Bonds issued for.

As of end 2017, government has zero outstanding of government guarantees. At the same time, the debt of debtors guaranteed by the MoF as a result of the execution of state guarantees for domestic loans amounted to Lei 2.4 million, while for external loans it amounted to 432.9 million lei.

# Debt Management Performance Assessment (DeMPA)

## 3.1 DeMPA Methodology

The DeMPA 2015 methodology comprises a set of 14 debt performance indicators (DPIs), which encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and priority for reform.

The DeMPA focuses on central government debt management activities and closely-related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of State Owned Enterprises (SOEs), if these are not guaranteed by the central government. The central government is nonetheless responsible for managing its contingent liabilities and thus for ensuring supervision of public debt and guaranteed public sector debt (which is part of the debt sustainability analysis), which DeMPA evaluates under the following indicators: DPI-1 “Legal Framework,” DPI-6 “Coordination with Fiscal Policy,” and DPI-10 “Loan Guarantees, On-Lending, and Derivatives.”

The DeMPA is largely modeled after the Public Expenditure and Financial Accountability (PEFA) Performance Indicators. While the latter cover broad aspects of public financing, the DeMPA focuses exclusively on central government debt management in a greater level of detail than do PEFA indicators. The points of convergence between these two tools lie in the areas of the recording of cash balances, debt management, and guarantees. There are strong links between PEFA indicators for audit and fiscal planning and DeMPA indicators for audit and coordination with macroeconomic policies.

The scoring methodology assesses each dimension and assigns a score of A, B, or C, based on a list of criteria. If the minimum requirements for a score of C are not met, the dimension is assigned a score of D. A score of C indicates that the minimum requirements considered necessary for effective debt management performance have been met. A score of D, however, indicates that the minimum requirements have not been met and that specific measures are necessary to correct the deficiencies and unsatisfactory performance noted. The A score reflects sound practice for the dimension of the performance indicator, corresponding to the best practice level, while a B score is a mid-range.

In some situations, a dimension is not scored because the activity in the dimension has not actually been carried out (for example, derivatives are not used), in which case the term N/A (not applicable) is assigned to the dimension. The lack of information or even insufficient information makes it difficult or even impossible to assess a dimension, in which case the designation N/R (not rated) is assigned.

When the criteria for a score require that certain legislative provisions, regulations, or procedures be in place, the latter must not only have been approved or signed but must also have been implemented. If that is not the case, these provisions, regulations, or procedures are considered non-existent, and cannot be considered in the debt management assessment and thus in the DeMPA scoring. The same principle also applies when the DMS, even if it has been drafted, has not been followed or updated.

## 3.2 Summary of Performance Assessment [2]

| Performance Indicator | | Score 2008 | Score 2018 |
|---|---|---|---|
| DPI-1 | 1. Legal Framework | B | A |
| DPI-2 | 1. Managerial Structure: Borrowing and Debt-Related Transactions | A | A |
| | 2. Managerial Structure: Loan Guarantees | NR | A |
| DPI-3 | 1. DMS: Quality of Content | D | A |
| | 2. DMS: Decision-Making Process | D | A |
| DPI-4 | 1. Debt Reporting and Evaluation: Debt Statistical Bulletin | C | B |
| | 2. Debt Reporting and Evaluation: Reporting to Parliament or Congress | | B |
| DPI-5 | 1. Audit: Frequency and Comprehensiveness | D | C |
| | 2. Audit: Appropriate Response | NR | B |
| DPI-6 | 1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts | C | D |
| | 2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA | C | D |
| DPI-7 | 1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations | A | A |
| | 2. Monetary Policy: Regularity of Information Sharing | A | B |
| | 3. Monetary Policy: Limited Access to Central Bank Financing | A | A |
| DPI-8 | 1. Domestic Borrowing: Market-Based Mechanisms and Preparation and Publication of a Borrowing Plan | A | A |
| | 2. Domestic Borrowing: Availability and Quality of Documented Procedures | A | A |
| DPI-9 | 1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms | D | A |
| | 2. External Borrowing: Availability of Documented Procedures | C | C |
| | 3. External Borrowing: Involvement of Legal Advisers | B | A |
| DPI-10 | 1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures | NR | NR |
| | 2. On-lending: Availability and Quality of Documented Policies and Procedures | C | C |
| | 3. Derivatives: Availability and Quality of Documented Policies and Procedures | NR | NR |
| DPI-11 | 1. Effective Cash Flow Forecasting | B | D |
| | 2. Effective Cash Balance Management | C | D |
| DPI-12 | 1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service | D | D |
| | 2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage | D | C |
| | 3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control | D | C |
| | 4. Data Security: Frequency of Back-Ups and Security of Storage | B | B |
| DPI-13 | 1. Segregation of key Staff Duties | D | D |
| | 2. Staff Capacity and Human Resource Management | D | A |
| | 3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans | D | D |
| DPI-14 | 1. Debt Records: Completeness and Timeliness | A | A |
| | 2. Debt Records: Registry System | A | C |

[2] The DeMPA methodology was revised in 2015, and not all indicators are directly comparable between 2008 and 2018.

# Performance Indicator Assessment

## 4.1. Governance and Debt Management Strategy

### DPI-1 Legal Framework

| Dimension | Score |
|---|---|
| 1. Existence, coverage, and content of the legal framework | **A** |

***Requirement for minimum compliance (C):*** *The legislation (primary and secondary) provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions (where applicable), and to issue loan guarantees (where applicable), all on behalf of the central government. In addition, the primary legislation specifies the purposes for which the executive branch of government can borrow.*

Primary legislation governing public debt management in Moldova includes the Constitution, the Public Financial Management Act nr.181 from 2014 (PFM), the Law on International Treaties (LIT) nr. 595 from 1999, the National Bank (NBM) Law nr.548 from 1995, the Debt Management (DeM) Law nr.419 from 2006 and the Annual Budget Laws. Secondary legislation includes, among others, Government Decision nr.1136 from 2007 on provisions for execution of Debt Management Law, as well as Government Decision nr.442 from 2015 on Regulation for approval of international treaties.

Article 129 of the Constitution of Republic of Moldova, adopted in 1994, stipulates that Parliament adopts all external borrowing and decides on utilization (purposes) of external loans.

The LIT provides definitions of international treaties, also applicable for multilateral and bilateral external government loans and guarantees, as well as stipulates the leading role of the Ministry of Foreign Affairs in the negotiation and processing of such agreements.

The NBM Law includes provisions of the fiscal agency role of the NBM (art.40), as well as the right of the NBM to accept government deposits (art.39). Article 41 of the Law includes a clear prohibition for the NBM to credit the Government of Moldova.

PFM Law (bugetar-fiscale nr. 181 from 2014), stipulates that MoF is a central government ministry authorized to manage public debt of Moldova (art.20). It also envisages that annual limits of public debt are to be established in the budget legislation (art.38). According to the provisions of the PFM Act, MoF indeed establishes annual ceiling of nominal government debt and government guarantees in the Annual Budget Law.

The Debt Management Law includes all the main elements of the sound debt management legislation. The definition of public debt in Moldova includes several elements, such as:

- Central government debt and state guaranties, administered by the Government (thought MoF).
- NBM is responsible for debt management contracted in their own name.
- Local Authorities are responsible for the administration of local debt and issued guaranties

- SoE/Municipal companies are responsible for debt management contracted in their own name.

Art. 3 of the Debt Law includes clear borrowing authorization role of the Minister of Finance. Similarly, authorization for issuing of government guarantees is stipulated in art 34 of the Law. As mentioned above, all the borrowing and guarantee transactions are subject to Parliamentary approval. The Law stipulates debt management objectives and requires development of the medium-term debt management strategy (art. 6). In addition, purposes of government borrowing are established and include: support investment activities, export promotion, debt repayment, buy-backs, refinancing, budget deficit financing, among others (art.14).

The Law also establishes quarterly and annual reporting requirements to the Parliament (art.12.6). All the reports should include consolidated information on public debt. The quarterly reports are to be submitted within 70 days after the end of each quarter, while the annual report is due within 90 days after the end of the year. These annual reports include evaluation of the progress in strategy implementation and overall performance of the debt portfolio.

As for the secondary legislation, Government Decision nr.1136 of October 18, 2007 regulates implementation of the legal provisions of the Debt Management Law. It includes the following regulations:

- Regulation for public debt reporting;
- Regulation for government debt reporting;
- Regulation for reporting of government guarantees;
- Regulation for reporting of on-lending;
- Regulation for conducting on-lending operations;
- Regulation for determining risk premium for issuance of government guarantees;
- Regulation for establishing external and domestic debt borrowing and debt service general procedures;
- Regulation on reporting requirements for beneficiaries of government guarantees from the MOF;
- Regulation on borrowing and issuance of government guarantees for the subnational/ administrative units;
- Regulation for reporting requirements of subnational/administrative units on government debt and guarantees.

In addition, Government Decision nr.442 from July 17, 2015 specifies the procedure for the examination, negotiation and approval of international treaties. Several provisions of this regulation apply to the process of contracting external multilateral and bilateral loans.

Given that the legal framework is comprehensive and provides clear authorization to the Minister of Finance to borrow and issue new debt, issue and manage government guarantees, enter into debt related transactions, specifies borrowing objectives and purposes, require the preparation of the medium-term debt management strategy and an evaluation of strategy implementation, all the core requirements are met and score A is assigned. This is an improvement of the legal framework compared to the 2008 DeMPA, when this dimension was scored B due to lack of debt management objectives and requirement for mandatory reporting to Parliament.

### DPI-2 Managerial Structure

| Dimension | Score |
|---|---|
| 1. The managerial structure for central government borrowings and debt-related transactions. | **A** |
| 2. The managerial structure for preparation and issuance of central government loan guarantees. | **A** |

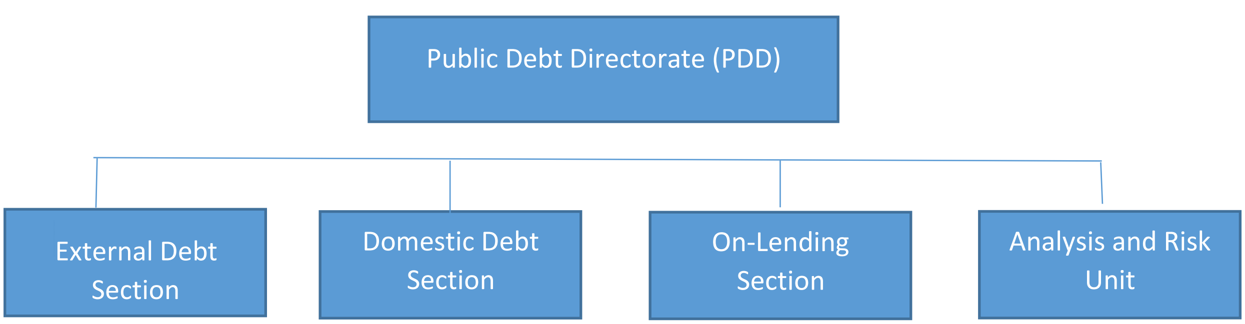
**Dimension 1**

***Requirement for minimum compliance (C):*** *Borrowings and debt-related transactions are undertaken either by the principal DeM entity or, if there is no principal DeM entity, by DeM entities that regularly exchange debt information and closely coordinate their respective activities through formal institutional mechanisms.*

The managerial structure of the MoF is defined by the government Decision 696 of August 2017 which establishes the Public Debt Directorate (PDD) as a structural subdivision of the Ministry of Finance. The provisions of this regulation also include the organization and the responsibilities of the directorate. Furthermore, it regulates its relations with other subdivisions of the MoF, central and local public authorities and other institutions. The ministerial directive identifies the PDD as the sole responsible entity in charge of preparing and executing Government's policies in the field of public debt management. The responsibilities of the PDD include negotiating and contracting new loans, issuing state securities, preparing a debt management strategy, maintaining the public debt database, forecasting debt servicing, and preparing payment invoices.

As per the ministerial directive, PDD is divided into four sections (see figure 1) with a total of 15 staff members, including the general director. The sections are: the external debt sections, the domestic debt sections, the on-lending sections and the analysis and risk unit. There are clearly divided responsibilities at the MoF, between the political level – which establishes the annual ceiling for external and domestic borrowing (in the budget law) and approves the medium-term debt management strategy –and the PDD which is responsible for executing a formalized debt management strategy on behalf of the government.

**Figure 1** – PDD's Managerial Structure



The External Debt Section is made up by 4 staff, including the head of the section, and it is responsible for managing all external debt issues and government external guarantees. It acts as a back, middle and front office for all issues related to external debt and guarantees. As such, it maintains the external debt and government guarantees database, reconciles the loan data with creditors and issue payment orders. Furthermore, it designs the necessary inputs related to external debt and feeds them to the Analysis and Risk Unit to be incorporated into the medium-term debt management strategy. It prepares the annual external borrowing plan in line with the strategy and it is responsible for monitoring the implementation of the strategy. It is in charge of preparing projections of debt service and disbursements to other government departments. With regards to external guarantees, it reviews, analyzes and submits recommendations to the Government regarding all requests for issuance of foreign state guarantees. As front office for external debt, it participates in the negotiations for all external loans, analyzes the financial proposals for all external financing and is responsible for coordinating with the specialized financial institutions the issuance of state securities to be placed on foreign markets.

The Domestic Debt Section is made up of 4 staff, including the head of the section. It is responsible for managing all domestic debt issues and for managing government domestic guarantees. It acts as a back, middle and front office for all issues related to domestic debt and guarantees. It is responsible for maintaining and updating the domestic database on debt and domestic government guarantees. Furthermore, it prepares all the required reporting of public sector domestic debt, and it ensures the timely service of all domestic debt. It also prepares and updates the forecast of internal financing sources and servicing of domestic debt to be fed to the Budget Department which is in charge of preparing the Medium-Term Budget Framework (MTBF). Furthermore, it designs the necessary inputs related to domestic debt and feeds them to the Analysis and Risk Unit to be incorporated into the debt management strategy, and it prepares the annual domestic debt borrowing plan in line with the strategy. It is responsible for monitoring implementation of the strategy for domestic borrowing. Additionally, the section is in charge of analyzing and submitting to the Government any proposal along with the appropriate recommendation regarding all requests for granting internal state guarantees. As front office, this section is also responsible for issuing domestic debt, T-bills and T-bonds[3] and for holding periodic meetings with market participants.

The On-lending Section is made up of 4 staff. It is responsible for reviewing, drafting, signing and recording on-lending contracts from domestic and/or external loans for the purpose of implementing development projects and programs. It prepares quarterly and annual reports on the amounts disbursed, reimbursed, and the balance of debts of on-lent loans. It is in charge of analyzing the financial situation of economic agents and recipients of on-lent resources.

The Analysis and Risk Unit is made up of two staff. Its main responsibility is to develop, with the inputs from the external and the domestic debt sections the medium-term debt management strategy, which includes preparing alternative scenarios for financing needs with cost/risk analytical tools. It also

[3] Information on bids received during the competitive and non-competitive parts of the auction are sent to the MoF immediately after the deadline for bidding at the auction, and NBM is notified no later than one hour after the closing of the auction on the minimum accepted price.

assesses and monitors, on a monthly and quarterly basis, risk and sustainability indicators for public sector debt and government guarantees.

Coordination with the NBM, as the fiscal agent for Government is regulated in a formal agreement dated in 2007 by which the NBM conducts auctions of Government securities on behalf of the MoF. Furthermore, information sharing between the MoF and NBM takes place regularly through the Liquidity Committee[4]

As all borrowing and debt-related transactions are undertaken by a single debt management unit (the PDD) without any political interference and steered by a formalized medium-term debt management strategy, the score for this dimension is A. The score in last evaluation in 2008 was also an A.

**Dimension 2**

***Requirement for minimum compliance (C):*** *If applicable, loan guarantees are prepared and issued by one or more government entities that regularly exchange information and closely coordinate their respective activities through formal mechanisms, both between themselves and with the DeM entity or entities.*

Government's policies on guarantees is steered by regulations included in Law 419 that oversees public debt, guarantees and on-lending. Policy guidelines regarding the issuance of State guarantees are included in the Law 419 of 2006. It provides a comprehensive policy framework that clearly describes the purposes for issuing government guarantees namely:

- to guarantee domestic or external loans for the implementation of projects financed from external or internal sources of major importance to the national economy;
- for new loans that have a lower financial cost for early repayment of guaranteed loans
- to guarantee emergency credit granted to banks by the National Bank of Moldova in situations of systemic financial crisis or danger of its occurrence;
- for exercising the competences stipulated in the law on bank resolution;
- to guarantee the credits granted to individuals in accordance with the law on some measures for the implementation of the "First Home" State Program.

All guarantees are centrally prepared by the PDD in line with the established procedures included in Government Decision 1136 and are issued after approval from Parliament has been secured. The External Debt and Domestic Debt Sections are in charge of assessing any request for government guarantees, to monitor the guarantees throughout its life and to report to Government and Parliament. Government discontinued issuing guarantees in 2008. However, in April of this year, Government has started a program for issuing domestic guarantees (50 percent of the balance of the granted loan) for first time home buyers through the banking sector.

[4] See DPI 8 for more information.

Since loan guarantees are prepared and issued by only the PDD and the decisions are steered by a formalized guarantee framework and government policy, the score for this dimension is an A. The dimension was not rated in 2008 as the guarantees were not issued.

### DPI-3 Debt Management Strategy

| Dimensions | Score |
|---|---|
| 1. The quality of the DeM strategy document | **A** |
| 2. The decision-making process and publication of the DeM strategy | **A** |

**Dimension 1**

***Requirement for minimum compliance (C)****: A medium-term DMS is in place covering all existing and projected central government debt, based on the DeM objectives. The strategy is expressed at least as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. In addition, if applicable, the strategy document contains a description of measures aimed at supporting domestic debt market development.*

Moldova has a formal, three-year debt management strategy covering all central government debt. The Medium Term Debt Management Program for the years 2017-2019, was revised for the 2018-2020 horizon, in line with the medium-term government debt forecasts and the updated macroeconomic indicators forecast by the Ministry of Economy and Infrastructure, coordinated with the International Monetary Fund (IMF) in November 2017. The strategy has clearly stated debt management objectives, such as ensuring the financing needs of the state budget deficit at acceptable levels of medium and long-term expenditures under the conditions of limiting the risks involved. Furthermore, it also introduces specific objectives for managing state debt in the period 2018-2020, such as:

- Developing the internal market for government securities;
- Contracting of foreign state loans, considering the cost-risk ratio; and
- Improvement of operational risk management related to government debt.

Based on these objectives, the strategy includes a set of measures to be undertaken by the MoF that include:

- Monitoring the sustainability of the state debt;
- Continuous (through monthly and quarterly reporting) assessment and risk management of the government debt portfolio and contingent liabilities;
- Increasing the transparency and predictability of the state securities market;
- Monitoring and evaluating the performance of primary dealers;
- Identification of new financial sources for budget deficit financing and negotiation of new external borrowing agreements with favorable financial conditions (e.g. maturity, interest rate, etc.)

- To analyze the opportunity and take the necessary actions to enter the international financial markets through the issuance of bonds in order to extend the maturity of the debt portfolio and diversify the investor base;
- Use the possibilities of the updated version of the DMFAS 6.1 for periodic validation of the database;
- Develop an operational risk management plan.

The strategy document includes analytical assessment of alternative borrowing strategies and the impact on the cost and risk indicators of various shocks scenarios using the MTDS analytical tool. Based on the analysis undertaken of the various borrowing scenarios and the impact of the market shocks a preferred strategy was identified. This strategy includes expanding external financing sources to include bilateral partners and extending the average maturity of domestic instruments by introducing a 5-year bond. A set of strategic targets were established for the end 2020:

- Government debt due within one year (% of total) ≤ 25%
- Internal government debt (% of total) ≥ 25%
- Government debt in a given foreign currency (% of total) ≤ 50%
- Government debt with variable interest rate (% of total) ≤ 40%
- State Debt Service (% in relation to State Budget Revenues-Grants) ≤ 15%

The score for this dimension is an A because a medium-term strategy is in place covering all existing and projected central government debt. Furthermore, the strategy is based on the debt management objectives and is expressed as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. Additionally, the strategy contains a description of measures aimed at supporting domestic debt market development. The score in the 2008-DeMPA for this dimension was D.

**Dimension 2**

***Requirement for minimum compliance (C):*** *The strategy proposal is prepared by the principal DeM entity or, if there is no principal DeM entity, jointly by the DeM entities. The views of the central bank are obtained; the strategy is formally approved; and the strategy is made publicly available, including through publication on official website(s) and in print media.*

The process for preparing, updating and approving the debt management strategy is established in Art. 6 of the Law 419 of Dec. 2006. The process starts at the beginning of the year and uses inputs from the MTBF and the annual budget, which establishes the borrowing ceiling. Inputs from the External Debt and Domestic Debt Sections, including borrowing scenarios, are centralized at the Analysis and Risk Unit (ARU). It is at this section that inputs from the Ministry of Economy (GDP growth rates) and NBM (inflation and exchange rates) are also incorporated into the analysis along with the market variables and shocks scenarios prepared by the ARU. The results are then assessed at the directorate level and a preferred strategy, including targets for the main risk indicators, is selected. The document is sent to the Minister so that it can be sent to the NBM, the Ministry of Economy, State Chancery and Ministry of Justice for formal comments. Once the comments from these Institutions are received and incorporated, the final strategy is sent to the Minister to be presented at the Council of Ministers for approval. After approval, the strategy is published in the Official Gazette and it is available at the MoF's website.

The strategy is the basis for designing the annual borrowing plans for external sources and they are also reflected in the domestic annual borrowing plans. Furthermore, there are quarterly domestic borrowing plans that are based on the strategy and there is evidence, such as the issuance of longer maturities government securities this year, that the domestic borrowing plan follows the guidelines provided in the strategy. The score for this dimension is an A as the existing procedures and practices fulfill all requirements in this dimension. The score in 2008 was D.

### DPI-4 Evaluation of Debt Management Operations

| Dimensions | Score |
|---|---|
| 1. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations. | **B** |
| 2. The presentation and content of an annual evaluation report to the parliament or congress on DeM activities and general performance. | **B** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *A debt statistical bulletin (or its equivalent), with the main categories listed in the "Rationale and background" section of this DPI (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old at the date of publication.*

The MoF publishes information on central government debt and debt flows. Publication is both in the format of a comprehensive and detailed report containing text, tables and graphs as well as in a short 4-page monthly 'debt statistical bulletin' format consisting of tables/graphs, with little text. The debt statistical bulletin is published in both Romanian and English. It is published by the 20th day of the month following the reporting period. The debt statistical bulletin reports on the most recent month as well as including a short paragraph highlighting any pertinent news it wishes to convey to investors at the top of the bulletin (i.e. on volume, maturity length, Moody's credit rating).

The debt statistical bulletin covers central government debt and provides a breakdown by residency, by instrument type, by structure of external debt by creditor type (bi-lateral/multilateral) and domestic debt by investor (banks/non-banks); by currency (with and without a breakdown of SDR into its component currencies) and external central government debt by type of interest rate (fixed/floating). The maturity structure of government securities is given (91-, 182- and 362-day T-Bills; 1-, 2-, 3- and 5-year bonds). The amount of central government debt outstanding (external and domestic) as well as ratio to GDP is given. The bulletin also gives the percentage of central government debt maturing in one year as a percentage of total debt, and information on debt flows in the last month as well as an overview of quarterly information on debt flows per quarter over the last year. Regarding risk measures, the following are included: share of central government fixed rate to floating rate, share of short-term to long-term debt, share of foreign currency to domestic currency and currency composition of foreign currency debt. However, due to DMFAS challenges in calculation of the average time to interest rate refixing, and average time to maturity of debt, no information is included in the bulletin but included in the quarterly reports to the Government and Parliament. Since 1998, the government does not issue external debt guarantees. Information on domestic debt issued as government securities for the execution of state guarantees (according to Law no. 235 concerning emergency domestic loans provided after the 2015 banking crisis) is given by instrument structure.

The score for this dimension is B. For a higher score, risk measures on interest rate refixing (ATR) and average time to maturity refinancing risk (ATM) would need to be included. The score in the previous DeMPA was C.

**Dimension 2**

***Requirement for minimum compliance (C):*** *A report (or section of a wider report) providing details of outstanding government debt and DeM operations is submitted annually to the parliament or congress and is also made publicly available.*

The MoF submits a report within Government and Parliament on public debt, state guarantees and on-lending on both an annual and quarterly basis. The reports have an almost similar structure/format with the exception that annual report provides a description of how the government has managed its debt during the reported period in compliance to the general objective of the governments 'medium-term debt management framework (2017-2019), including cost/risk parameters, and to its specific debt objectives for the year being reported. All objectives are described. The annual publication reports on the outstanding debt portfolio (stock, composition, flows) of the government as well as on all borrowing undertaken during the year, in line with government debt management objectives, including cost/risk analysis. Information includes a description of all external borrowings, as well as securities issuances made on the primary market, relevant macro-economic context as well as a general description of efforts undertaken in developing the domestic debt market (e.g. investor relations with primary dealers). An overview is also provided on on-lending operations (including main entities involved) during the year. It does not, however, assess strategy implementation and whether key assumptions for the strategy continue to hold and whether the strategy remains appropriate. The annual report is submitted within 90 days of the reporting period. The quarterly report is submitted within 70 days of the reporting period. Both reports are produced in Romanian only and are published on the MoF website.

The annual report is produced as a stand-alone report that it directly addresses the debt management actions during the year in relation to the debt management strategy. However, as it does not include an assessment of "the chosen DeM strategy and rationale behind it", the score is B rather than A.

## DPI-5 Audit

| Dimension | Score |
|---|---|
| 1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports | **C** |
| 2. Degree of commitment to address the outcomes from internal and external audits | **B** |

**Dimension 1**

***Requirements for minimum compliance (C):*** *An external financial audit of DeM transactions is undertaken annually. External compliance audits have been conducted in the past two years. Audit reports are publicly available within six months of completion of the audit.*

The Court of Account of the Republic of Moldova (COA) is responsible for external audit of the use of public funds, among its other responsibilities. The COA's mandate is defined in the Constitution and the Law on the Establishment and Operations of the Court of Accounts.

The COA is a constitutionally autonomous and independent institution and is a member of the International Organization of Supreme Audit Institutions (INTOSAI). According to the Constitutional provisions, art.133, the role of the COA includes control of use of public finances. The COA must present an annual audit report of the budget execution to the Parliament.

The President of the COA is appointed by the Parliament for a duration of 5 years. The annual budget of the COA is approved by the Parliament (art. 4 of the COA Law).

According to the COA Law nr. 260 from 2017, the COA has the statutory responsibility to carry out annual audits of the consolidated budget, budget organizations, and ministries (as well as other entities and independent bodies receiving funding from, or providing dividends to, the government) (art.5).

Relations of the COA with the Parliament and stipulated in the art. 6 of the COA Law and include the following provisions:

(1) CoA has to present to the Parliament, among others, the following information:
   - report on annual activities of the court – to be submitted until May 1;
   - audit results of the budget execution report, among other mandatory reports- to be submitted until June 1;

(2) Audit report of the budget execution, along with other key audit reports, should be published within 15 days after approval by the COA Board and are submitted to the President and Government.

All these provisions are implemented as required by the legislation. The COA is conducting annual financial audits of the budget execution, including the accurate and timely reporting and payment of outstanding liabilities (including debt). The financial audit process follows a well-established calendar and is conducted annually in a timely manner. The report includes conclusions and recommendations of the COA and is published on the official website, as required by Law.

As per the provisions of the art 31 of the COA Law, COA can carry out all types of audit (financial, compliance, performance), as well as other types of audits, verifications and controls. The audit plans are developed for the period of three years, followed up by the annual audit schedule, which is published at the COA website.

According to the COA records, comprehensive evaluation of debt management activities, operations and processes have been conducted annually since 2016. Earlier audit reports were predominantly focused on financial and compliance aspects of the government debt management. Audit reports include specific recommendations for improvement of quality of government debt management, monitoring of portfolio indicators and development of relevant policies and procedures.

The latest audit report for public debt management was finalized at the end of May 2018. The report is a combination of compliance and performance audit. It includes analysis of public debt portfolio, assessment of the portfolio structure and on-lending, as well as analysis of activities conducted by the government in the process of debt management.

With regard to internal audit, every line ministry is obliged to have an internal audit unit and conduct audits as assigned by the respective minister. Internal audit of the PDD falls under the authority of the MoF's Internal Audit Division. In the meeting with internal audit experts, the mission was informed that an audit of debt management activities has not been undertaken during the last 5 years. Also, the internal risk matrix suggests that this area is not a high risk and, therefore, does not require frequent audits.

Officials from the NBM confirmed that there is a well-established internal audit function at the bank, with five years plan for audit activities, defined based on the internal risk matrix. The organization of such audits is based on the documented processes rather than by responsibilities of the individual departments. The team had no access to the specific audit information due to the confidentiality of such reports.

Given the high quality of external audit function, including the preparation of annual external audit reports by the COA, the minimum requirement for this dimension is met, score C. Compared to 2008 DeMPA, the external audit practices at the COA have significantly improved and would qualify for higher score if a stronger internal audit function was in place.

**Dimension 2**

***Requirements for minimum compliance (C):*** *The relevant decision makers produce a management response to address the outcomes of the internal and external audits of government DeM activities.*

Each external audit report of the public debt management includes a list of recommendations, which are discussed with the MoF staff and an action plan is prepared. Implementation of the action plan is monitored within the PDD and most of the activities are fully implemented.

The status of implementation of the prior year's recommendations is also reviewed by the COA in each annual audit report.

In the past, there were few instances when implementation of the recommended measures was extended due to complexity of the proposed activities and longer time needed to ensure compliance. Such extensions were based on agreements among the involved parties.

Thus, considering that most of the activities recommended by external auditors are implemented, the score for this dimension is B. For a higher score, all the recommendations should be implemented within agreed time line. The score has improved compared to 2008 DeMPA results due to higher importance given to implementation of external audit recommendations.

## 4.2 Coordination with Macroeconomic Policies

### DPI 6 Coordination with Fiscal Policy

| Dimension | Score |
|---|---|
| Dimension 1: Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios | D |
| Dimension 2: Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken | D |

**Dimension 1**

***Requirement for minimum compliance (C):*** *As part of the yearly budget preparation, forecasts are provided on total central government–debt service.*

The process of drafting the annual budget is regulated by the PFM Act (see DPI 1). It starts with the update of the strategic planning for medium term budget, which is kicked off in January of the preceding year. The MoF receives macroeconomic forecast from the Ministry of Economy and monetary policy inputs from the NBM and starts preparation of the MTBF. PDD contributes to the medium-term planning through provision of the debt service forecast for the upcoming three years. After an extensive consultative process, the MTBF is submitted to the Cabinet. Approval of the MTBF is scheduled in June. Both the medium-term budget framework and annual budget law are consistent with the national development policy.

The budget must the approved by the cabinet and ratified by the Parliament before the beginning of the new fiscal year.

In accordance with the budget formulation calendar, PDD produces the total central government debt service projection using government debt data recorded in the DMFAS system. For conversion into local currency, PDD used the FX assumption provided by the Ministry of Economy. Interest rate assumptions are prepared by the PDD. The debt service forecast is calculated only for a base case scenario, alternative scenarios are not requested by the budget department. Debt service forecasts are prepared including a small “safety margin”, to deal with the unexpected increase in the debt service payments that may occur due to exchange rate fluctuations. Disbursement forecasts are provided by newly created Aid Coordination Department. Starting from the year 2017 MoF elaborates a Fiscal Risk Note, which is part of the budget documentation for the draft budget (2018, 2019). This Note examines the explicit fiscal risks (forecasts of macroeconomic indicators, the budgetary aggregates, and debt service), their impact on the budget and risk mitigation measures. The Note analyses forecasts errors for the above-mentioned indicators for the last 6 years and explains some larger deviations in the forecasts (within the limits determined and described in the Note), including indicators related to state debt.

The debt service forecast produced by PDD for domestic debt service is broadly within the range of a reasonably reliable margin for the difference between the forecast and actual debt service (table 1). In the DeMPA context the quality of such forecasts is considered “reasonably reliable” when the difference between forecasted and actual debt service outturn is less than 10 percent over the past three years. Year 2016 was exceptional, as MoF had to assume new domestic debt, which was previously guaranteed for a loan from the NBM. At the same time, deviations in external debt service forecast are more significant, especially for interest rate forecasts. There are a number of reasons for such deviations, including overestimated disbursements due to slow implementation of the public investment projects (on average 50 percent of the forecasted amount) and FX fluctuations.

**Table 1 Debt Service Forecast and Actual 2015 - 2017**

| | **2015** | | *%* | **2016** | | *%* | **2017** | | *%* |
|---|---|---|---|---|---|---|---|---|---|
| | Projected | Actual | | Projected | Actual | | Projected | Actual | |
| **Domestic (mil. MDL)** | | | | | | | | | |
| Principal | 16,411.5 | 16,571.2 | *101.0* | 17,153.6 | 17,380.8 | *101.3* | 17,203.6 | 17,094.9 | *99.4* |
| Interest | 863.7 | 793.6 | *91.9* | 1,402.0 | 1,462.5 | *104.3* | 1,473.1 | 1,571.1 | *106.7* |
| *Disbursements* | 16,918.4 | 16,721.3 | *98.8* | 17,353.6 | 31,675.0 | *182.5* | 16,935.6 | 18,153.8 | *107.2* |
| **External (mil. MDL)** | | | | | | | | | |
| Principal | 777.8 | 724.3 | *93.1* | 1,210.6 | 1,107.3 | *91.5* | 1,898.2 | 1,329.7 | *70.1* |
| Interest and commis. | 396.9 | 249.7 | *62.9* | 345.5 | 284.6 | *82.4* | 460.5 | 357.9 | *77.7* |
| *Disbursements* | 3,601.2 | 2,528.7 | *70.2* | 6,538.6 | 4,591.0 | *70.2* | 7,397.2 | 3,634.6 | *49.1* |
| **External (mil. USD)** | | | | | | | | | |
| Principal | 40.3 | 38.5 | *95.5* | 57.4 | 55.3 | *96.3* | 93.0 | 71.7 | *77.1* |
| Interest and commis. | 20.6 | 13.3 | *64.6* | 16.4 | 14.3 | *87.2* | 22.6 | 19.4 | *85.8* |
| *Disbursements* | 186.6 | 133.6 | *71.6* | 309.9 | 230.3 | *74.3* | 362.6 | 195.6 | *53.9* |

*Source: Ministry of Finance and WB calculations*

As part of the government's annual budget preparation, debt service forecasts are provided in a timely manner, but the forecast error was above the reasonably reliable range. Thus, the score for this dimension is D. The score for this dimension in the 2008 DeMPA was C, but the criteria has been amended since then.

**Dimension 2**

***Requirement for minimum compliance (C):*** *Key macro variables (actual outcomes and forecasts) and a DSA that has been undertaken by the government within the past three years are shared with the principal DeM entity (or DeM entities).*

None of the departments in the MoF prepares regular DSA analysis and reports. The DSA is conducted only as part of the cooperation with IMF review missions.

Macroeconomic forecasts are available to the PDD, along with other relevant department, as part of the MTBF preparation.

Since the DSA is not produced, the score for the second dimension is D. In 2008 the score was C, as a DSA was produced without external support.

### DPI 7 Coordination with Monetary Policy

| Dimension | Score |
|---|---|
| Dimension 1: Clarity of separation between monetary policy operations and DeM transactions | **A** |
| Dimension 2: Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows | **B** |
| Dimension 3: Extent of the limit of direct access to financial resources from the central bank | **A** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *Monetary policy operations are kept formally separate from DeM transactions insofar as the central bank carries out DeM transactions as an agent of the central government. In addition, the central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent on behalf of the central government.*

According to the NBM Law (nr. 548-XIII, 1995), NBM acts as fiscal agent to the MoF. The relationship between the MoF and NBM is defined in a Memorandum of Understanding (MoU) signed by the Minister and the Governor October 17, 2017. The MoU specifies high-level (quarterly meetings) and a working-level (monthly meetings) working groups responsible for coordination and information sharing. In addition to the MoU, a Fiscal Agency Agreement between MoF and NBM was signed in 2007. The Agency Agreement specify the role of NBM regarding domestic borrowing, including a requirement that a quarterly borrowing plan should be published at least five days before the start of the quarter, and that NBM will provide market information to MoF.

The objective for monetary policy is price stability over the medium term, defined as an annual inflation rate of 5.0 percent annually with a possible deviation of ± 1.5 percentage points. The reference rate for monetary policy operations is the Base Rate, around which a corridor of ± 3.0 percentages points is defined for deposit and lending operations. In addition to deposit and credit facilities, NBM issues its own short-term instruments to mop up liquidity and have reserve requirements of 40 percent of deposits.

The financial market is characterized by structural excess liquidity. From March 2017 the MoF has been undertaking domestic borrowing with the explicit purpose of mopping up excess liquidity. As of mid-July 2018, the outstanding amount of domestic securities issued for monetary policy purposes was lei 0.5 billion. The proceeds from the operations are placed in NBM earning an interest equal to the interest paid on the securities, meaning that the transactions are cost-neutral from the point of view of the MoF. The market participants were informed up-front about the transactions, that were kept separate from domestic issuance for budget funding purposes. In addition, the Agency Agreement specify that decisions regarding issuance volumes and cut-off prices at auctions are taken by MoF.

Monetary policy operations are kept separate from market activities that NBM is undertaking on behalf of MoF. In addition, the agency relationship between the two institutions are specified in agreements that are publicly available. The score for the first dimension is A. The same score was given in the 2008 DeMPA assessment.

**Dimension 2**

***Requirement for minimum compliance (C):*** *When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cash flows with the central bank.*

The MoU (2017) specify a range of working groups and require that MoF share information on cash holdings on a daily basis and provide cash forecasts two weeks into the future, while NBM is required to share its liquidity forecast with MoF. The MoU specify that exchange of such information is to take place via email or telephone. Specifically, the MoU require:

- MoF will present to the NBM the daily turnovers and balances of the treasury account, forecasts of the liquidity budgets, and necessary information in areas of common interest;
- NBM will forward to the Ministry of Finance the liquidity forecast in the banking system, information on the balance of NBM certificates in circulation on a monthly basis, forex forecast, as well as other information of common interest.

Current practice is that meetings are held monthly, and information is exchanged on an ad-hoc, but at least weekly, basis.

There is regular exchange of information, including on expected debt service, that can be relevant for monetary policy implementation. The exchange takes place at least weekly, which qualify for a B score. An A would require that information is exchanged on a daily basis. In the 2008-assessment the score for the second dimension was A.

**Dimension 3**

***Requirement for minimum compliance (C):*** *Access to financing from the Central Bank has a ceiling limit imposed by legislation*

According to Article 41 of the NBM Law (1995), NBM cannot grant loans or guarantees in any form to the Government or Government entities. In addition, NBM is prohibited from buying government securities in the primary market or granting overnight credits. This regulation has been followed in practice for many years, meaning that the central government does not have access to central bank funding.

As funding by NBM is prohibited and as such funding has not taken place, the score for the third dimension is A, in line with the score in the previous DeMPA assessment.

## 4.3. Borrowing and Related Financing Activities

### DPI-8 Domestic Borrowing

| Dimension | Score |
|---|---|
| 1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities | **A** |
| 2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants | **A** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement. An annual borrowing plan for the projected aggregate amount of domestic borrowing—divided between the wholesale and retail markets and other sources—is prepared. In addition, a borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.*

Domestic funding needs are covered in the market through issuance of T-bills with maturities of 3, 6 and 12 months, and fixed and variable interest rate T-bonds with maturities of 2, 3 and 5 years. 5-year bonds were introduced in March 2018, and the monthly issuances has been relatively small. Securities are issued at competitive auctions using the Bloomberg auction platform. Auctions are held every two weeks (used to be every week), where 9 Primary Dealers (PDs) can provide bids on multiple price auctions (T-bills) and single price auctions (T-bonds). PD agreements are entered with NBM and specify that PDs can participate in auctions of government securities on their own behalf and on behalf of clients. Resident and non-resident individuals and legal persons may be clients of PDs. Commercial banks that are not PDs can also participate in auctions, but only on their own behalf.

Information on bids received during the competitive and non-competitive parts of the auction are sent to the MoF immediately after the deadline for bidding at the auction, and NBM is notified no later than one hour after the closing of the auction on the minimum accepted price. On the same day, NBM informs the participants through Bloomberg about the auction result. The results are also published on the websites of the two institutions.

An annual borrowing calendar is prepared on the basis of the budget and made available to market participants. In addition, a quarterly auction calendar is published at least one week ahead of the start of the quarter, and provide auction dates, instruments and indicative volumes. The calendar is published on the websites of MoF and NBM. Information from both MoF and market participants indicated that the issuance calendar is followed quite closely. In addition to the calendar, no later than 5 days before an auction, MoF and NBM publish a communique with specifics of the upcoming auction (issuance date, coupon, registration number, settlement and maturity date, etc.).

Since all domestic borrowing is market based and guided by the annual borrowing plan and quarterly auction calendars, with indicative amounts, that are shared with market participants in good time before the first auction of the quarter, the score for the first dimension is A, or the same as in 2008.

**Dimension 2**

***Requirement for minimum compliance (C):*** *Borrowing procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank web sites.*

The procedures for domestic borrowing are available through NBM Decision no. 96 (2013). Decision no. 96 on the *Regulation on the Placement and Redemption of Government Securities in book-entry form*[5], provides detailed information for potential market participants on all aspects of the issuance, clearing and settlement process for government securities. An Investor's Guide to Government Securities in the form of a booklet has been prepared with the purpose of providing general information on government securities and attracting retail investors.

Meetings with PDs are held on a quarterly basis. The focus of the meetings is the quarterly borrowing calendar (a draft for the coming quarter is shared) and issues related to primary market activity. In June the quarterly meeting had the form of a multi-day workshop where planned adjustments to the PD system was presented and discussed.

Borrowing and settlement procedures are publicly available and published on the website of NBM. In addition, there are quarterly meetings with the PDs. The score for the second dimension is A, in line with the 2008 DeMPA.

## DPI-9 External Borrowing

| Dimension | Score |
|---|---|
| 1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan is prepared | **A** |
| 2. Availability and quality of documented procedures for external borrowings | **C** |
| 3. Availability and degree of involvement of legal advisers before signing of the loan contract | **A** |

**Dimension 1**

***Requirements for minimum compliance (C):*** *A yearly borrowing plan for external borrowing is prepared and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.*

All external loan negotiations begin at the External Debt Section at the PDD. It prepares a dossier and sends it to the legal department at the Ministry of Foreign Affairs which reviews the documentation and

[5] https://www.bnm.md/en/content/regulation-placement-and-redemption-state-securities-book-entry-form-approved-dca-nbm-no-96

gathers comments from the Ministry of Justice, Ministry of Economy, MoF and other departments at the Ministry of Foreign Affairs itself. The Ministry of Economy verifies that the project is consistent with the government's development policy while the Ministry of Justice certifies that the project is consistent with domestic legislation. MoF reviews the borrowing terms and conditions and the Legal Department at the Ministry of Foreign Affairs checks the text of the agreement. Once the opinions from the four Ministries is secured and an agreement with the project is in place, the negotiation process with the creditor can commence. When an agreement with the creditor has been reached and based on whether the loan agreement is with a bilateral or multilateral creditor, the loans follows different paths. If it is a multilateral creditor, it is considered an international agreement and the legal department at the Ministry of Foreign Affairs sends it to the president for signature and Parliament for ratification. If it is a bilateral creditor, the loan agreement is treated under the Debt Management law, and it is sent to Cabinet for approval before being sent to Parliament for ratification. At the end of the process, after ratification in both cases, a legal opinion by the Ministry of Justice is issued.

The External Debt Section prepares an assessment of all the existing and potentially available sources of financing. The assessment includes the financial terms and conditions for all sources which is updated at the beginning of every loan negotiation or at least once a month. The External Debt Section also prepares a three-year rolling annual borrowing plan based on the debt management strategy. The last one available included all disbursements for 2017 and the expected loans for 2018, 2019, and 2020. The plan identifies the creditor, the disbursement period and the financial terms for the loan.

Since assessments of the most beneficial or cost-effective terms and conditions for external borrowing are conducted at the start of each negotiation and at least once a month, the score for this dimension is an A. The score in the previous evaluation, in 2008, the score was a D because the assessment of borrowing terms was not being prepared at that time.

**Dimension 2**

***Requirements for minimum compliance (C):*** *Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing.*

Government Decision (GD) 1136 of 2007 details the process that need to be followed for contracting and disbursing external loans and domestic borrowings. It was prepared to implement Law no.419-XVI of 22 December 2006 on public Debt, Government Guarantees and State on-lending. Additionally, section 3 of the GD 1136 lists all the required steps for contracting external loans. Before initiating any external loan negotiations, the Ministry of Finance, through PDD (External Debt Section), in coordination with the Ministry of Economy, Ministry of Justice, Ministry of Foreign Affairs and European Integration, submits to Government for consideration the proposal to initiate negotiations. Once the proposal has been approved through a Government Decision or Order, PDD is in charge of analyzing the financial conditions of the loan agreement by verifying whether the proposed loan agreement comply with the guidelines included in the DMS. Once the financial conditions have been checked by PDD (External Debt Section), the final draft is sent to the Sectorial Coordinator of the External Assistance in order to be promoted for the approval by the Government. Based on all the involved institutions (Mof, ME, MJ and MFA) recommendations, Government then, approves the contracting of the external state loan. The loan, then can only be signed by the appropriate authority. Article 3 of the debt law, provides borrowing authorization role of the Minister of Finance. If the loan agreement is an international treaty, its conclusion is made in accordance with the provisions of the Law No. 595-XIV on the international treaties of the Republic of Moldova6.

The Government Decision also includes the process to follow in case the state securities are to be issued in the foreign financial markets. Furthermore, the Government Decision establishes, as an additional step, that for the external state borrowing agreements to enter into force, the loan needs to be ratified by Parliament in accordance with the legislative acts of the Republic of Moldova. Lastly, the Government Decision, details the various documents needed to be collected by the line Ministry involved as well as the External Debt Section, in order to have a complete folder for each loan before the project is implemented. The director at the External Debt Section prepares, after each loan negotiation, a term sheet which is then provided to the staff in charge of inputting the loan information into the DMFAS system. The Government decision does not include the requirement to enter all financial terms of the new loan into the debt recording system within three weeks of signing but It does, however, include its own timetable to do so. According to the GD all the financial information for new loans are to be recorded by the time the loan goes into force. This requirement guarantees that information on new loans does not go unrecorded for long time. Furthermore, in practice, the information in the debt database is complete within a one-month lag.

Government decision 1136 includes the general procedures for undertaking foreign borrowing and the responsibilities for each section. Although it does not include the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing, the fact that it contains a timetable to register the loan information into the debt recording system by the time the loan goes into force, it is deemed to comply with the spirit of this dimension. The minimum requirements for this dimension have been met and therefore, the score for this dimension is a C. The score cannot be B because the GD, at the time of the DeMPA mission[7], had not been updated in the last two years. In 2008 the score was also a C.

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[6] The procedures for contracting external state loans are described in Governmental Decision nr.1136 of October 18, 2007(agreements that are not classified as treaties) and in Governmental Decision 442 of July 17, 2015 (agreements that are classified as treaties according to the international treaty under Law 595 of September 24, 1999).

[7] GD 1131 dated November 21, 2018 was not in place at the time of the mission and therefore cannot be counted towards the evaluation. GD 327 dated January 17, 2018, is related to general issues regarding approval of amendments in GDs and not directly related to external borrowing. GD 754 dated September 26, 2017, does indeed modify some aspects of GD 1136 but the review and impact are focused on Annexes 4,5 and 8 which deal specifically with on-lending and guarantees and not on external borrowing which is the scope of this dimension.

**Dimension 3**

***Requirements for minimum compliance (C):*** *Legal advisers approve all clauses of the legal agreements before concluding the negotiation process.*

Legal advisors are available before the negotiation process begins. As per the approved procedures, the Legal department at the Ministry of Foreign Affairs is in charge of revising the initial financial proposal to make sure the text is consistent with international standards, furthermore the Ministry of Foreign affairs needs to revise the financial proposal to verify that the text is in accordance with Moldovan law. Both departments are part of the negotiation team and therefore the presence of legal advisors is also guaranteed during the whole negotiation process. Furthermore, at the end of the process, after the loan agreement is ratified by Parliament, the Ministry of Justice issues a legal opinion.

Because legal advice takes place even before the negotiating process starts, the score for this dimension is an A. In 2008 the score was a B because the legal advisors from the Ministry participated in the process at the negotiating stage and the Ministry of Justice was not involved.

## DPI 10 Guarantees, On-lending and Debt-related Transactions

| **Dimension** | **Score** |
|---|---|
| 1. Availability and quality of documented policies and procedures for approval and issuance of the loan guarantees | **NR** |
| 2. Availability and quality of documented policies and procedures for on-lending of borrowed funds | **C** |
| 3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives | **NR** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *There are documented policies and procedures for the approval and issuance of loan guarantees.*

Government Decision 1136 details the process for granting State guarantees, assessing the quantity of guarantees, and the assessment of risks to be assumed by the MoF when granting State guarantees. These guidelines include the need to charge a guarantee fee and instructs the Ministry of Finance to charge a risk payment in the amount of 5 to 25 percent of the amount to be guaranteed, depending on the applicant's economic and financial situation and paid to the Government's budget. The exact risk charge to be paid by the requesting entity is based on the financial risks of the applicant. Chapter 3 of the Government Decision establishes the steps to be followed to determine the average risk category of the state guarantee applicants. These include a thorough analysis of the economic and financial situation of the applicant using its balance sheet, the financial results report and the cash flow ratio for the previous year. Risk categories, ranging from 1 to 5 are then given to applicants following certain criteria included in the Government Decision in the form of ranges for various financial indicators. Once a risk category has been assigned to an applicant, a fee is then asserted following guidelines included in annex 2 of the same Government Decision. The Domestic Debt Section is in charge of assessing any request for domestic government guarantees, to undertake the financial analysis, to monitor them throughout their life and to report to Government and Parliament. There has been no issuance of Government guarantees in the last 18 years.

A program for issuing Government guarantees started to be implemented this year under the "Prima casa" guarantee scheme. This program aims at facilitating the purchase of a home (50 percent of the credit guaranteed by the state) and is regulated by Law 293 of December 2017. Furthermore, the overall annual limit for issuing these types of guarantees is established by Parliament. The law includes the eligibility criteria for both, borrowers and banks, the conditions for participating and also includes a guarantee fee that was established at an annual rate of 0.5 percent. Under this scheme, the credit risk assessment is undertaken by the participating commercial bank at the time of the loan request by the applicant following its own set of procedures.

In addition to Law 293, a set of procedures to follow for issuing this type of guarantees has been established under the Government Decision 202 of February 2018. It describes the general procedures for:

1. Banks to submit the request to PDD at the Ministry of Finance to participate in the program as well as the eligibility requirements. They also include the time limits for PDD to reply to the request.
2. Documents and information needed in order to apply to the program (by beneficiaries to participating banks)
3. Timetable for reviewing the loan application (by participating banks)
4. Contents of the guarantee agreement.
5. Monitoring during the lifespan of the State Guarantee
6. Sample contract to be signed.

There are general steps for issuing government guarantees and assessing the corresponding credit risk and charging a guarantee fee. However, since there have been no direct State guarantees issued during the last 18 years, this dimension is not rated[8]. In 2008 the score was NR because no guarantees were issued.

**Dimension 2**

***Requirement for minimum compliance (C):*** *There are documented policies and procedures for the approval and lending of borrowed funds.*

Government on-lending is regulated under Chapter V of the Law No. 419-XVI of 22 December 2006 on public debt, state guarantees and state on-lending. Furthermore, Government Decision 1136 establishes the general procedures for on-lending financial resources obtained from external and / or internal loans,

[8] At the time of the mission, the team was informed about government plans to issue guarantees through a scheme using commercial banks that follow their own procedures for assessing the applicant's credit risk. It was not active and therefore not taken into account for the DeMPA evaluation.

considering the conditions defined in the external and / or internal borrowing loan agreements. These procedures describe the requirements to be fulfilled during the on-lending process.

Government on-lending takes place in Moldova through the MoF, the sole Institution entitled to carry out such operations under Law 419. The On-lending Section at the PDD is in charge of monitoring all outstanding on-lending contracts and of producing quarterly reports on the status of the various projects. On-Lending to the Private sector is implemented through the Credit Line Directorate (CLD) and there are currently only six outstanding on-lending agreements with SOEs.

CLD is a subordinate agency that was established under the Government Decision 953 of 2001 and has a board of Governors made up of representatives from the MoF, the NBM and the Ministry of Economy. The external funds secured by the MoF through loan agreements with international financial institutions (mostly World Bank, European Investment Bank and IFAD) are then channeled through the Project Implementation Units set up under the project to the intermediary commercial banks at the request of the CLD. Commercial banks, in turn, undertake the further on-lending to the various private sector borrowers and are responsible for refunding all borrowed funds to the CLD. Intermediary commercial banks are required to conduct their own credit risk assessment of the final borrower's request following their own internal procedures. The selection of participating Commercial banks in on-lending agreements is made directly by CLD based on performance appraisal and analysis and in compliance with the eligibility criteria and procedures established in Government Decision 1136.

Government Decision 1136 establishes the overall procedures to follow under this type of on-lending and leaves it to the individual credit agreement to detail specific procedures. Additionally, GD 1136 also lists the minimum procedures to be included in the credit agreement, among them:

- Procedures for selecting final recipients
- Operational procedures for disbursement of funds
- Procedures for accounting, reporting and monitoring of on-lending funds
- Procedures for assessing the financial performance of participating financial institutions throughout the project

Although the existing regulatory framework does require that all repayments be made in lei at the official exchange rate at the time of payment, the CLD has started to charge an exchange rate risk and credit risk fee which is raising 1.7 million USD in the last two years (2017/2018). This additional fund is now being kept as a reserved fund to face any potential difficulties in the future.

Procedures for on-lending is established under the original loan agreement. GD 1136 establishes the minimum procedures to be contained within it, including the specific on-lending and operational conditions of each investment project that will be described in the operational manual and in the external loan agreement. The minimum requirement for this dimension is therefore fulfilled and the score is a C. A higher score would require that the procedures contain a requirement to assess the credit risks before a decision is made to support a certain activity by credits, as well as guidelines on how this assessment would be conducted. The score in 2008 the score was a C.

**Dimension 3**

***Requirement for minimum compliance (C):*** *There is a DeM system with functionalities for handling derivatives. In addition, there are documented procedures for the use of derivative transactions.*

No derivates operations are undertaken by Government and therefore this dimension, similarly to the DeMPA 2008, not rated.

## 4.4. Cash Flow Forecasting and Cash Balance Management

### DPI 11 Cash Flow Forecasting and Cash Balance Management

| Dimension | Score |
|---|---|
| 1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts | **D** |
| 2. Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required) | **D** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances on central government bank accounts are produced for the budget year and are made available to the DeM entity. In addition, the cash balance forecast is updated monthly.*

A Treasury Single Account (TSA) is in place, and while the coverage is gradually increasing it does not cover all government payments yet.

The State Treasury Division of the MoF is responsible for preparing cash flow forecasts. Since 2010, cash forecasts have been prepared for the year with a monthly, weekly, and daily basis, and forecasts are updated on an ongoing basis through the year. The basis for the forecast is the approved budget. The forecasts are divided into three components: 1) Revenues; 2) Expenditures; and 3) Funding. Historical information on flows as used as input for the forecasts, and exchange of information with PDD on borrowing and debt service payments take place on a daily basis.

A unit of three staff in Treasury is tasked with preparing cash forecasts. In addition, seven staff work government payments. No active cash management activities are undertaken.

The mission was informed that no systematic tracking of the quality of the cash forecasts are undertaken, and since no detailed information on forecasts versus actuals was available, the score is D for the first dimension. The score for this dimension in the 2008 DeMPA was B based on an assessment that the cash forecasts with a weekly basis were reasonably reliable.

**Dimension 2**

***Requirement for minimum compliance (C):*** *The central government manages its cash in excess of the target on at least a monthly basis through investment in the market or with the central bank at market rates.*

While no specific cash buffer has been determined, the consolidated account is always of a size that means that it is unlikely that there will be a situation with cash shortage. Information on debt related transactions are shared with the Treasury on a daily basis, and cash forecasts does influence the planned borrowing pattern over the year. However, the impact of the cash forecasts appears to be on a very broad level, and no short-term instruments are issued to meet short-term cash needs according to the forecasts.

All government cash is held at NBM, and a market-based interest rate is paid on the holdings. The interest is calculated on the basis of the weighted average interest rate in the banking system for deposits. For term deposits NBM pays an interest based on the basic rate applied to short-term monetary policy operations, variable over the term of the deposit contract, irrespective of the deposit term.

Since not target cash buffer has been identified, and since issuance of short-term instruments is not planned according to the monthly cash forecast, the score for the second dimension is D. The score for this dimension was C in 2008.

## 4.5. Debt Recording and Operational Risk Management

### DPI 12 Debt Administration and Data Security

| Dimensions | Score |
|---|---|
| 1. Availability and quality of documented procedures for the processing of debt-related payments | **D** |
| 2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records | **C** |
| 3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail | **C** |
| 4. Frequency and off-site, secure storage of debt recording and management system backups | **B** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *There is an adequate and readily accessible procedures manual for the processing of debt service payments.*

At MoF, PDD is responsible for issuing payment orders to Treasury and the latter for transferring funds to NBM for payment. At NBM, instruction for debt payment is initiated by the Finance and Budget Department, following MoF Treasury request, with payment made by its Payment Operations Department. After a payment is made, NBM sends notification back to the MoF. For debt securities payments, notification of the SWIFT payment is also sent by NBM to Treasury and PDD by secured email.

Within MoF, there is currently no inter-system connection (interface) between the debt recording system (DMFAS) and the Treasury system, as such no flows on payment information including payments orders and payment confirmations between the Treasury and PDD are automated. At the NBM, all internal payment processes, including instructions, are fully automated. The payment process, whether at the MoF or NBM follow strict documented regulation, including multiple signatories for each payment authorization. Payment orders are produced in accordance with MoF Regulation no. 186, 2013 on completing payment orders used for the budget transfer in lei; NBM regulation on payment and accounting documents no. 150, and NBM regulation on credit transfer no. 157, 2013. Hard and electronic copies of the regulation and documents used for processing payments are readily accessible. All payment notifications are checked with internal records before payments are made. PDD has customized documented procedures on verifying the accuracy of debt-related payment data, including validation of the data provided by payment advices and receivables (payment confirmation) in DMFAS, which are in addition to the standard DMFAS user guide. They are separate for external, domestic and on-lending. These procedures give general guidance on what needs to be checked in terms of data before issuing any payment order and how to proceed in the case of differences in creditor information and that in DMFAS. They give a general list of source document type to be used in checking payment information, responsible entities involved, type of validation and frequency of action.

A validation check on the overall timeliness of loan payments is also performed on a monthly basis, with late payments explained and is included in the documented validation checklist. Each section in PDD is responsible for updating its relevant procedure, which is readily accessible and used by each new debt officer in their training. These procedures have not yet been formally reviewed since their creation. As such the mission was not able to assess whether they would be reviewed on at an at least every-other year basis. They also do not describe the process for authorizing payment. The latter process is documented separately but has not been updated or subject to formal review for several years. Although payment instructions are subject to a minimum two-person authorization and all payment data is verified for accuracy before payment is made, the payment process itself is not adequately documented.[9] As such, the minimum requirements for this dimension are not met, and the score for this dimension is D. In the 2008 assessment the score for the first dimension was also D.

**Dimension 2**

***Requirement for minimum compliance (C):*** *There are readily accessible procedures manuals for debt data recording and validation, as well as for storage of agreements and debt administration records.*

[9] A narrative description as well as flows charts of the payment procedures exist in Visio,but were not made available to the DeMPA team at the time of the mission. They have not been updated since 2011, the time of their creation. They were last formally reviewed in 2013.

In 2016 PDD developed a first set of draft customized documented procedures on its use of the DMFAS system, including debt recording (new debt, disbursements, repayments) and validation. The procedures are complemented by a validation procedures checklist on what should be checked, by whom, and when in order to ensure data completeness, accuracy and consistency. The procedures are additional to the standard DMFAS user-guide and are to be updated by each PDD section as needed and focus on ensuring the accuracy of the data recorded in the MoF's database. They have not been formally reviewed since their first drafting, even if they are being applied by PDD. Each document gives the objective of the procedure, related tasks, information source, responsibility, frequency, corresponding validation checks and methodology (using DMFAS). Risks and consequences of procedure not being followed are also listed in several cases. All recordings are validated by a second person within the PDD sections, who is separate to the person who did the recording. For all recordings, a validation report is produced (i.e. loan/tranche information sheet), which is certified by Head of Section (external or domestic) or other designated person. These validation reports are checked against the original recordings by a second person on a monthly basis. The recording procedures are the following:

- Recording and maintenance of DMFAS reference files
- Recording of finance agreements in DMFAS – external
- Recording of financing agreements in DMFAS – on-lent loans
- Recording of financing agreements in DMFAS – domestic loans
- Recording and subscription of a) Treasury bills discount – record & subscription; b) Treasury bonds being interest – record & subscription
- Recording of disbursements - external
- Recording of disbursements – on-lent loans
- Recording of disbursements – domestic
- Recording of debt service operations – external debt
- Recording of debt service operations – on-lent loans
- Recording of debt service operations – domestic loans
- Recording of debt service operation – securities (T-bills & bonds)

All payments are verified and recorded on notification of payment and re-verified on a monthly basis internally. Reconciliation of debt data recorded with creditor information is performed quarterly for external debt. Reconciliation of domestic debt with NBM data is made on a monthly basis.

The documented debt data validation calendar covers what each check aims to validate (accuracy, completeness, accuracy), when it should be done (i.e. whether at recording, stage, monthly or other), with whom (e.g. internal, creditor, NBM, Treasury) and how to do it. They cover checks on the recording of loan agreements and operations (service, disbursements), recording of securities and subscription as well as the recording of on-lending agreements, service and disbursements. In addition, they give general administrative checks performed in order to ensure primarily the completeness of data flowing into PDD, the effective administrative management and classification of the information. Included in these checks is the recording of all documents in a registry/log, done whenever a new document is received, maintaining a debt log for each debt agreement received, verifying all loans are filed in a structured manual and / or electronic filing system (done monthly), and ensuring that systematic backup procedures exist (for logs and documents) and are applied. All debt documentation (agreements and operations) are scanned and uploaded into DMFAS, which is regularly backed up by MoFs IT service.

Back-up procedures of the DMFAS system are documented. Original treaties are registered and archived at the Ministry of Foreign Affairs according to legislation. The MoF keeps a certified copy of all original, signed copies of loans and related records. Hard copies of documentation are kept in the MoF archives, located in the basement. There is no clear internal MoF documented procedure on how hard records are stored and archived. Electronic archiving is documented. Documented procedures are applied at the NBM concerning the validation of all recorded data in internal systems as well as for the archiving of both electronic and hard-copy records, including original securities certificates.

Due to well-developed scanning and electronic storage procedures at the MoF, as well as proof that accuracy of data is confirmed by a second person before entry considered complete and that data is always validated against received payment notification, the minimum requirements for this dimension are met. Although data reconciliation is also done regularly with creditors, a higher score than C is not given due to the absence of a formal review process of the documented procedures. The score for this dimension is C. In the 2008 DeMPA the score was D.

**Dimension 3**

***Requirement for minimum compliance (C):*** *There are documented procedures for controlling access to the central government's debt recording and management system.*

Customized documented procedures for controlling access to the DMFAS system within MoF were developed and formalized in 2017. A template must be filled in for each DMFAS user (user declaration of responsibility) and authorized by the Head of PDD regarding specific access rights to the system based on functional need, e.g. those in the Risk and Analysis Unit do not have recording rights; those in External Debt Section do not have access rights to modify or delete domestic records. The External and Domestic Debt Sections have access to recording debt transactions. On the user request template, the user agrees to comply with a set of rules including keeping password and username granted confidential, to inform the System Administrator about any change of identification data (e.g. Electronic address) within 3 working days, and to not use DMFAS for fraud. Following allocation of user rights, the template is signed by the System Administrator. An overview of all users' access rights to the system is available in excel. The audit module in the DMFAS system is not yet configurated and activated. The DMFAS system, containing uploaded debt documentation, is backed up daily, and server every three days**.** The score for this dimension is a C.

Documented procedures for controlling access to the DMFAS are adequate and readily available, however, as they have only been in place since 2016, the mission was not able to yet assess whether they would be reviewed on a yearly basis, which would enable a B. For a higher score, the audit module within the DMFAS system would need to be configured and activated. The 2008 score for the third dimension was D.

**Dimension 4**

***Requirement for minimum compliance (C):*** *Debt recording and management system backups are made at least once per month and stored in a separate secure location where they are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups.*

The security and maintenance of the MoF debt database, including back-ups, is provided by a State Enterprise (Fintehinform). Backups of the DMFAS database are performed daily on the server. The DMFAS server, which is located in a separate server room, is backed up every 3 days. Both hot and cold back-ups are made of the DMFAS database. The server is located in a separate secure location to PDD, located within the MoF building. Although some of the Ministry systems (eg. Treasury system) are backed-up at an off-site location, the DMFAS server is not currently included in offsite back-ups due to limited resources for space. The book-entry-system used by NBM as its securities registry is located within the same building as the Bank. It is backed up daily, in a separate and secure location by NBM IT according to documented IT back-up procedures for all systems maintained by NBM. The NBM has an off-site back-up location. The score for this dimension is a B. The MoF debt recording system and NBM securities registry are backed up daily, with full exports to the server backed up at least weekly. However, there are not off-site back-ups for both systems, which would allow for a higher score. The score is the same as in 2008.

### DPI 13 Segregation of Duties, Staff Capacity, and Business Continuity

| Dimensions | Score |
|---|---|
| 1. Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function. | **D** |
| 2. Staff capacity and human resource management | **A** |
| 3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements | **D** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *There is clear separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are different as well as to ensure that there is a separate risk monitoring and compliance function.*

No overall documented procedure exists giving the breakdown of assigned responsibilities according to functions. Instead, the responsibility of each debt officer is embedded in their individual job descriptions. It is also included in the annual workplan, which lists all activities, sub-activities and named persons involved for each. A separate document provides an overview of who has recording access to the DMFAS system and for what instruments.

The persons negotiating the loan contracts are not the same as those recording the contracts, nor for initiating and processing payments. However, due to the number of staff in each section (maximum four, but often less due to absences), individuals are also involved in a combination of front, middle and back-office functions. This does not always facilitate a clear segregation of responsibilities. Some individuals involved in front-office responsibilities for external debt are also involved in the validation of debt recording and have recording access to the database. This includes confirmation of contract information in terms of transactions being undertaken by the NBM, separate departments are involved for securities operations, and payments. This includes those responsible for initiating payments and those involved in actual payments. At the MoF risk and compliance is performed by PDD and set out in its annual work plan. In the current plan, this includes: a) analyzing risk and establishing risk parameters related to the state debt to be monitored during the implementation period and developing an operational risk management plan. Compliance on PDD management of risk, including operational, are reported in both the quarterly and annual reports. This risk compliance function is mostly overseen by one separate unit within the PDD, namely the Risk and Analysis Unit.

The score for this dimension is D due to a lack of clear segregation of responsibility for those responsible for negotiating and contracting a loan and for those confirming (validating) transaction data. The score in the 2008 DeMPA was D.

**Dimension 2**

***Requirement for minimum compliance (C):*** *There are sufficient and adequately trained staff members with formal job descriptions that are reviewed and updated periodically.*

PDD has 15 staff, of which 2 vacancies. All are professional. There is no supporting secretarial/administrative assistance. One of these persons has a double role as Deputy Head of PDD as well as Head of the Domestic Debt Section within PDD. With the exception of very few persons, including the Head and Deputy Head, most staff have been in PDD for less than 5 years. Most are young and have very little professional experience before joining PDD. Although all objectives and deadlines are met by the PDD, this is not without a high degree of work-pressure on those involved. Any absence of a staff member, for official leave including training is quickly felt by remaining staff, who must absorb the additional workload in the other person's absence. This is particularly the case in the Risk and Analysis Unit, which is currently operating with only one person due to a long-term absence of the second person. Nevertheless, it is the view of the DeMPA assessment team that the current staffing is sufficient for performing all functions of PDD, provided that there will be no vacancies anymore. Current staff have been adequately trained in meeting all of the sections main functions up until now, thanks to a large degree by TA provided by international institutions. Future plans for further strengthening PDD, eg. in developing the domestic market, would require strengthened human resource capacity in the targeted areas, either through training or new recruitment.

All MoF and NBM staff have formal individualized job descriptions which are reviewed and updated periodically. Yearly performance evaluations in both institutions are also undertaken, during which training and professional development for the year ahead is agreed. Both MoF and NBM have a code of conduct. The PDD developed its own code of ethics recently.

The score for this dimension is A. The score in 2008 was D.

**Dimension 3**

***Requirement for minimum compliance (C):*** *There is a written business-continuity and disaster-recovery plan.*

The MoF has no written formalized business continuity plan or Disaster Recovery Plan.[10] Only partial procedures exist concerning the DMFAS system itself, which are included in the IT customized documented procedure regarding security and maintenance of the DMFAS system, including need for back-ups and risk of data loss via poor maintenance (i.e. antivirus software not being updated. However, PDD has very recently developed an operational risk management plan concerning its own critical processes, for which operational risks are identified and control measures to be taken identified. Risks have also been signaled within PDD's annual workplan. For all functional objectives performed by PDD, a list of risks is identified, including political, operational, technological, IT, or human resources.

At the Ministry overall level, no operational recovery site for testing exist. The score for this dimension is D as there is no formalized business continuity plan and disaster recovery plan that has been tested. The 2008 score was D.

## DPI 14 Debt Records

| **Dimensions** | **Score** |
|---|---|
| 1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions | **A** |
| 2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable | **C** |

**Dimension 1**

***Requirement for minimum compliance (C):*** *There are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring.*

PDD uses the DMFAS system for external, domestic and on-lending. Each section of PDD is responsible for updating debt records under its respective responsibility.

The External Debt Section is responsible for recording all information on each new external loan at a general information level as well all data related to the terms of principal and interest as well as estimated disbursements, in addition to any commitment charges. This is done each time a loan is contracted, amended, re-organized, assumed or ratified. It is also responsible for recording all debt service payments. Recording of debt service payment is made upon payment (pre-verified before

[10] Recently, an operational risk management plan has been developed. The plan includes the business continuity and disaster recovery actions and control measures to be taken are identified.

payment order). Actual disbursements are recorded upon receipt of disbursement advice and verification of disbursement information in the DMFAS database and any reconciliation with project unit if necessary. No difficulties are encountered in gaining information on disbursements made. The time lag between actual disbursement and recording of disbursement, including verification, is less than a month. Validation checks on all debt data entered into the debt management system are performed at each recording stage. They are also performed on a periodic basis in accordance with PDD's debt data validation calendar. All external debt records are up-to-date within a one-month time lag regarding both payments and disbursement data.

The Domestic Debt Section is responsible for recording information on domestic debt. Following the auctions, MoF subsequently records the results of the auction manually in the DMFAS database. All transactions are verified by the Head of the Domestic Debt Section on a weekly basis. Validation spot checks are also performed on the quality of the data recorded in the DMFAS system. Validation checks are included in PDD's debt data validation calendar. Validation reports run on the database at the time of the DeMPA mission showed a complete and updated database with records within a one-month lag. The score for this dimension is A, in line with the 2008 score.

**Dimension 2**

***Requirement for minimum compliance (C):*** *The registry system has up-to-date and secure records of all holders of government securities.*

At the time of the DeMPA mission, the securities registry system being used for depositing and settlement of state securities was the Book-Entry System (BES), managed by the NBM, in its role as fiscal agent for managing the securities operations process. The system was developed in 1995, to be replaced immediately following the mission by a Central Depository System (CSD), as part of reform efforts for modernizing the securities system in line with international standards. The BES is operated in accordance with NBM regulation on placement and redemption of state securities in book-entry form, approved by the DCS of the NBM, No. 96, 2013. It allows for delivery versus payment, which avoids all risk that a security be delivered without a payment or a payment made without a security. The BES was operated by NBM staff, responsible for introducing data, monitoring flows of information with participants, registering new securities, creating accounts and monitoring the settlement. It was not clear to the mission whether the BES had been audited in recent years. The BES is subject to daily system back-up procedures applied by the Bank for all systems. Back-ups of the system are maintained in a secure separate location.

The BES is evaluated every two years to determine its compliance with FMIs principles, developed by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) and to identify the necessary measures to be taken in order to ensure full compliance and/or improvement of the functional and technical characteristics of the BES. The assessment is carried out in accordance with the Assessment methodology for the principles of FMIs and responsibilities of authorities, 2012, elaborated by the BIS and IOSCO.[11]

The score for this dimension is a C. Securities are kept in a central registry that contains secure and up-to-date records on all securities holders and is audited every two years. A higher score would require annual audits. The score for this dimension in the 2008 DeMPA was A.

[11] The last evaluation took place in 2016 and, as a result, the CPSS/IOSCO framework was published on the NBM website: http://bnm.md/ro/content/sistemul-de-inscrieri-conturi-ale-valorilor-mobiliare-sic

## Annex 1: Comparison of DeMPA scores in 2008 and 2018

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| **Governance and the Debt Strategy** | | | | |
| **DPI - 1** | **Legal Framework** | | | |
| 1 | The existence, coverage, and content of the legal framework. | **B** | **A** | The legal framework provides clear authorization to the MoF to borrow, and issue and manage guarantees, and borrowing purposes and objectives. The score is an improvement compared to 2008, where debt management objectives and mandatory reporting requirements to Parliament were not included in the law. |
| **DPI - 2** | **Managerial Structure** | | | |
| 1 | The managerial structure for central government borrowings and debt-related transactions. | **A** | **A** | All borrowing and debt related transactions are undertaken by the PDD and steered by a formal debt management strategy, the score is unchanged at A. |
| 2 | The managerial structure for preparation and issuance of central government loan guarantees. | **NR** | **A** | Since loan guarantees are prepared and issued by only the PDD and the decisions are steered by a formalized guarantee framework and government policy, the score for this dimension is A. The dimension was not rated in 2008 as the guarantees were not issued |
| **DPI - 3** | **Debt Management Strategy** | | | |
| 1 | The quality of the debt management strategy document. | **D** | **A** | The score for this dimension is an A because a medium-term strategy is in place covering all existing and projected central government debt. Furthermore, the strategy is based on the debt management objectives and is expressed as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. The reason for the D-score in 2008 was that the strategy did not make reference to currency risk. |
| 2 | The decision-making process, updating, and publication of the debt management strategy. | **D** | **A** | The score for this dimension is an A as the existing procedures and practices fulfill all requirements in this dimension. The score in 2008 was D as |

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| | | | | the views of NBM were not formally obtained. |
| **DPI - 4** | **Reporting, publication, and evaluation of debt management operations** | | | |
| 1 | Publication of a statistical bulletin on debt, loan guarantees and debt-related operations. | **C** | **B** | The score for this dimension is a B. Debt data is not older than two months old at the date of publication, but indicators for interest rate and refinancing risk is missing. The score in 2008 was C, since no risk exposure indicators were not reported. |
| 2 | Reporting to the Parliament or Congress. | | **B** | The score for this dimension is an B. The annual report is produced as a stand-alone report, in addition to its coverage, submission and publication meeting all the requirements of the other dimensions, except that it does include an assessment of “the chosen DeM strategy and rationale behind it”. |
| **DPI - 5** | **Audit** | | | |
| 1 | Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports. | **D** | **C** | The score is C on the background of the quality of the external audit function and the annual external audit reports. The 2008-score was D since performance audits were not undertaken. |
| 2 | Degree of commitment to address the outcomes from internal and external audits. | **NR** | **B** | The DeMPA methodology has changed for this dimension, so a direct comparison Is not possible. |
| **Coordination with Macroeconomic Policy** | | | | |
| **DPI - 6** | **Coordination with Fiscal Policy** | | | |
| 1 | Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios. | **C** | **D** | As part of the government’s annual budget preparation, debt service forecasts are provided in a timely manner, but the forecast error was above the reasonably reliable range. Thus, the score for this dimension is D. The score for this dimension in the 2008 DeMPA was C, but the DeMPA criteria has been amended since then. |

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| 2 | Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken. | **C** | **D** | DSAs are not produced which results in a D-score. This is a deterioration compared with 2008, where DSAs were undertaken by the IMF. |
| **DPI - 7** | **Coordination with Monetary Policy** | | | |
| 1 | Clarity of separation between monetary policy operations and debt management transactions. | **A** | **A** | Monetary policy operations are kept separate from market activities that NBM is undertaking on behalf of MoF. In addition, the agency relationship between the two institutions are specified in agreements that are publicly available. The score is A, and unchanged from 2008. |
| 2 | Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows. | **A** | **B** | There is regular exchange of information relevant for monetary policy implementation. The exchange takes place at least weekly, which qualify for the B score. An A would require that information is exchanged on a daily basis. In the 2008-assessment the score was A. |
| 3 | Extent of the limit of direct access to financial resources from the central bank. | **A** | **A** | As funding by NBM is prohibited by law and as such funding has not taken place, the score for the third dimension is A, in line with the score in the 2008 assessment. |
| **Borrowing and Related Financing Activities** | | | | |
| **DPI - 8** | **Domestic Borrowing** | | | |
| 1 | The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities. | **A** | **A** | All domestic borrowing is market based and guided by the annual borrowing plan and quarterly auction calendars, with indicative amounts, that are shared with market participants in good time before the first auction of the quarter, the score for the first dimension is A, or the same as in 2008 |
| 2 | The availability and quality of documented procedures for local-currency borrowing in the | **A** | **A** | Borrowing and settlement procedures are publicly available and published on the website of NBM. In addition, there are quarterly meetings with the PDs. |

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| | domestic market and interactions with market participants. | | | The score for the second dimension is A, similar to the 2008 DeMPA. |
| **DPI - 9** | **External Borrowing** | | | |
| 1 | Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan. | **D** | **A** | Since assessments of the most beneficial or cost-effective terms and conditions for external borrowing are conducted at the start of each negotiation and at least once a month, the score for this dimension is an A. The score in the previous evaluation, in 2008, the score was a D because the assessment of borrowing terms was not being prepared at that time. |
| 2 | Availability and quality of documented procedures for external borrowings. | **C** | **C** | The score is the same as in 2008. Although the procedures does not include the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing, the fact that it contains a timetable to register the loan information into the debt recording system by the time the loan goes into force, it is deemed to comply with the spirit of this dimension. |
| 3 | Availability and degree of involvement of legal advisers before signing of the loan contract. | **B** | **A** | Because legal advice takes place even before the negotiating process starts, the score for this dimension is an A. In 2008 the score was a B because the legal advisors from the Ministry participated in the process at the negotiating stage and the Ministry of Justice was not involved. |
| **DPI - 10** | **Loan Guarantees, On-lending and Debt-related Transactions** | | | |
| 1 | Availability and quality of documented policies and procedures for approval and | **NR** | **NR** | In line with 2008, guarantees are not issued directly by PDD. |

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| | issuance of central government loan guarantees. | | | |
| 2 | Availability and quality of documented policies and procedures for on-lending of borrowed funds. | **C** | **C** | There are documented policies and procedures for the approval and lending of borrowed funds. Therefore, the score for this dimension is a C. The score in 2008 the score was a C because risk assessment was not being carried out in all cases. |
| 3 | Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives. | **NR** | **NR** | No financial derivatives have been entered into, and the dimension, in line with 2008, is not rated. |
| **DPI - 11** | **Cash Flow Forecasting and Cash Balance Management** | | | |
| 1 | Effectiveness of forecasting the aggregate level of cash balances in government bank accounts. | **B** | **D** | Since no detailed information on forecasts versus actuals was available, the score is D for the first dimension. The score for this dimension in the 2008 DeMPA was B based on an assessment that the cash forecasts with a weekly basis were reasonably reliable. |
| 2 | Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required). | **C** | **D** | Since not target cash buffer has been identified, and since issuance of short-term instruments is not planned according to the monthly cash forecast, the score for the second dimension is D. The score for this dimension was C in 2008. |
| **DPI - 12** | **Debt Administration and Data Security** | | | |
| 1 | Availability and quality of documented procedures for the processing of debt-related payments. | **D** | **D** | Although payment instructions are subject to a minimum two-person authorization and all payment data is verified for accuracy before payment is made, the payment process itself is not |

| DPI | Title | Score 2008 | Score 2018 | Comments |
| --- | --- | --- | --- | --- |
| | | | | adequately documented. As such, the minimum requirements for this dimension are not met, and the score for this dimension is D. In the 2008 assessment the score for the first dimension was D since documented procedures were not available for all payments. |
| 2 | Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records. | **D** | **C** | Documented procedures are applied at the NBM concerning the validation of all recorded data in internal systems as well as for the archiving of both electronic and hard-copy records, including original securities certificates, and the minimum requirements are fulfilled. This is an improvement compared to 2008, where processes for accessing the external debt recording system were not in place. |
| 3 | Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail. | **D** | **C** | Documented procedures for controlling access to the DMFAS are adequate and readily available, however, as they are less than one year old, the mission was not able to yet assess whether they would be reviewed on a yearly basis, which would enable a B. The score in 2008 was D as not documented procedures for accessing DMFAS were in place. |
| 4 | Frequency and off-site, secure storage of debt recording and management system backups. | **B** | **B** | The MoF debt recording system and NBM securities registry are backed up daily, with full exports to the server backed up at least weekly. The servers are located in separate, secure locations. However, there are no off-site back-ups made for either system, which results in an unchanged score of B. |
| **DPI - 13** | **Segregation of Duties, Staff Capacity and Business Continuity** | | | |
| 1 | Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function. | **D** | **D** | The score for this dimension is D due to a lack of clear segregation of responsibility for those responsible for negotiating and contracting a loan and |

| DPI | Title | Score 2008 | Score 2018 | Comments |
|---|---|---|---|---|
| | | | | for those confirming (validating) transaction data. The score is the same as in 2008 |
| 2 | Staff capacity and human resource management. | **D** | **A** | There are sufficient and adequately trained staff members with formal job descriptions reflecting their current tasks. In addition, there are code-of-conduct and conflict of interest guidelines in place, and individual training plans are in place. The score in 2008 was D due to insufficient staff numbers. |
| 3 | Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements. | **D** | **D** | The score for this dimension is D as there is no formalized business continuity plan and disaster recovery plan that has been tested. The score and the reasons are the same as in 2008. |
| **DPI -14** | **Debt and Debt Related Records** | | | |
| 1 | Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions. | **A** | **A** | Validation reports run on the database at the time of the DeMPA mission showed a complete and updated database with records within a one-month lag. The score for this dimension is A, in line with the 2008 score. |
| 2 | Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable. | **A** | **C** | The score for this dimension is a C. The reason that the score is not higher is that the registry is not audited annually. The score for this dimension in the 2008 DeMPA was A. |

## Annex 2: Meetings held during the 2018 DeMPA mission

| *Time* | *Activity* | *Contact* |
|---|---|---|
| | ***Monday July 9, 2018*** | |
| 9:00-9:30 | Kick off, overview of mission activities and objectives | **Ion Chicu**, General State Secretary, MoF |
| 10:00-12:00 | Public Debt Division | **Elena Matveeva**, Head of Public Debt Directorate<br>**Victor Martinenco**, Deputy Head of PDD and Head of Domestic Debt Section<br>**Marina Popușoi**, Head of Analysis and Risk Unit |
| 14.00-14.30 | EU Project | **Yannis Hadziyannakis**, Team Leader |
| 14:30-15:30 | Public Debt Division, Analysis and Risk Section | **Marina Popușoi**, Head of Analysis and Risk Unit |
| 15:30-16:30 | Public Debt Division, External Debt Section | Marcel Olari, Head, External Debt Section and team |
| 17:00-17:30 | World Bank | **Anna Akhalkatsi**, Country Manager |
| | ***Tuesday July 10, 2018*** | |
| 9:00-10:00 | Public Debt Division, Domestic Debt Section | **Victor Martinenco**, Head of Domestic Debt Section and team |
| 10:00-11:00 | Public Debt Division, On-lending Section | Alexandre and team |
| 11:00-12:00 | External Financial Assistance Section of the Public Investment and External Financial Assistance Division | **Viorel Pană**, Head of PIEFA Division, and Iulia Ciumac, Head of Foreign Financial Assistance Section |
| 14:00-16:00 | Fiscal Policies and Budget Synthesis Division | **Natalia Sclearuc**, Head of FPBS Division |
| | ***Wednesday July 11, 2018*** | |
| 9:00 -11:00 | National Bank of Moldova | **Vladimir Munteanu**,<br>First Deputy Governor |
| | IT Department, Ministry of Finance | |

| | | |
|---|---|---|
| 14:00-15:00 | Victoria Bank | **Natalia Paraschiv**, Treasury Division Director<br>**Mihai Spinei**, dealer in Treasury Division |
| 15:30-16:30 | Banca Comercială Română | **Martin Ortigosa,** CEO<br>**Ion Dobanda**, ALM Manager<br>**Plesca Sergiu**, Treasury Team Manager |
| ***Thursday July 12, 2018*** | | |
| 9:00-10:00 | Grawe Carat Insurance | **Veronica Malcoci**, Diretor General |
| 10:30-12:00 | Court of Accounts | **Tatiana Cunetchi**, Member<br>**Ms. Violeta Balan**, Head of External Relations |
| 11:00-12:00 | Internal Audit Service | **Alexandru Lungu** |
| 14:00-15:00 | Legal Advisor, Ministry of Foreign Affairs | **Vladimur Sacagiu**, Head of International Relations |
| ***Friday July 13, 2018*** | | |
| 9:00-10:30 | State Treasury Division | **Maxim Ciobanu**, Head of CMS |
| 11:00-12:00 | National Bank of Moldova, Internal Audit | **Lucia Hardaca**, Comproller General |
| 14:45-15:30 | Credit Line Directorate | **Cantemir Raisa**, Head |
| 15:00-16:00 | Human Resources, MoF | **Iuri Pașinschi**, Head of HR Division |
| 16:00-16:30 | Preliminary wrap-up and findings | **Octavian Armasu**, Minister of Finance |
| 17:00-17:30 | Preliminary wrap-up | **Ion Chicu**, General State Secretary, MoF |
| ***Monday July 16, 2018*** | | |
| 9:00-10:00 | National Bank of Moldova, CSD | **Alexandru Savva**, Director, CSD |
| 14:00-17:00 | PDD team | **Elena Matveeva** and team |
| ***Tuesday July 17, 2018*** | | |
| 9:00-10:00 | National Bank of Moldova | **Daniel Savin**, Director, Financial Markets<br>**Serghei Bucur**, Head of Division, Financial Markets |
| 11:00-13:00 | Public Debt Division | **Elena Matveeva** and team |