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FISCAL AFFAIRS DEPARTMENT

Moldova

Public Investment Management Assessment

Arturo Navarro, Yugo Koshima, Anjum Israr, Francisco Mejia, Eivind Tandberg, and Elena Corman

Technical Report | December 2019

INTERNATIONAL MONETARY FUND

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INFRASTRUCTURE GOVERNANCE FACILITY
AN IMF-JAPAN CAPACITY DEVELOPMENT PARTNERSHIP

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ACRONYMS

CBTM	Cadrul Bugetar pe Termen Mediu
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IMF	International Monetary Fund
IT	Information Technology
IWG	Investment Working Group
LPFFR	Law on Public Finance and Fiscal Responsibility
LTX	Long-Term Experts
MCC	Millennium Challenge Compact
MDL	Moldovan Leu
MoEI	Ministry of Economy and Infrastructure
MoF	Ministry of Finance
MTBF	Medium-term Budget Framework
NCSA	National Complaints Settlement Agency
NPSAS	National Public Sector Accounting Standards
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIU	Project Implementation Unit
PPA	Public Property Agency
PPP	Public-Private Partnership
PSPSD	Support Program for Road Sector
RDF	Road Development Fund
SOE	State-owned Enterprise
SRA	State Road Administration
TLS	Transport and Logistics Strategy
WB	World Bank

PREFACE

In response to a request from the Ministry of Finance (MoF), a Fiscal Affairs Department (FAD) mission visited Chisinau, Moldova, from October 9 to 22, 2019, to provide Capacity Development on public financial management (PFM). The mission comprised Arturo Navarro (FAD, head), Yugo Koshima, Israr Anjum (both FAD), Eivind Tandberg (FAD Infrastructure Governance LTX), Francisco Mejia (FAD expert), and Elena Corman (World Bank).

The tasks of the mission were, to: (i) assess Moldova's public investment management framework; (ii) assist the authorities to prepare a reform strategy and prioritized action plan for strengthening the management of public investment; and (iii) recommend follow-up areas of technical assistance that could be provided by FAD or other development partners.

At the Ministry of Finance, the mission met with Ms. N. Gavrilita, Minister; Mr. Dimitru Udrea, State Secretary; Mr. V. Pana, Head of the Public Investment and Foreign Financial Assistance Division; Ms. Natalia Sclearuc, Head of the Fiscal Policies and Budget Synthesis Division; Ms. E Matveeva, Head of Public Debt Division; Ms. O. Ignat, Deputy Head of the State Treasury Division; and Mr. I. Iaconi, Head of Local Budget Section. The mission also met with Ms. G Mincu, Minister of Agriculture; Ms. I Costachi and Mr. A. Sonic, State Secretaries of Ministry of Economy and Infrastructure; Mr. G. Curmei, Director of State Road Administrator; Ms. E. Cacicovschii, Head of Transport Department; Ms. V. Chicu, State Secretary of Ministry of Education; Mr. E. Moraru, Director Public Procurement Agency, Ms. I. Gutnic, Deputy Director General, National Agency for Solving Complaints; Mr. M Raducan, President, Competition Council, Ms. S. Pascaru, Deputy Director General, Termoelectrica, and Mr. V. Zastavnetchi, Deputy General Manager, Moldelectrica.

The mission also met: Ms. A. Sax of the European Bank for Reconstruction and Development, Ms. E. Lung and Mr. V.S. Krishnakumar of the World Bank, and Mr. A Castillo from the European Investment Bank.

The mission is grateful to the authorities for the frank and open discussions and close cooperation. The mission also expresses its appreciation to Mr. V. Tulin, IMF Resident Representative, and his staff, Mr. O. Scerbatchi and Mr. V. Buicli, and Mr. V. Pana and Ms. Lilia Taban from the MoF, for their outstanding support; and to Mr. S. Bufteac and Mr. O. Bodorin, for their excellent translation assistance.

EXECUTIVE SUMMARY

Public capital stock in Moldova has declined over the past two decades. Public capital stock stands at 58 percent of Gross Domestic Product (GDP) at the end of 2018, down from 75 percent in 2000. This figure places Moldova at the lower end of comparator countries. The country's efforts to increase investment are limited by the large budget share of recurrent expenditures (92 percent of total) and the significant under-execution of public investment, which in 2018 was 1.4 percent of GDP. Under-execution of capital investment has been persistent throughout the last decade, had these resources been successfully invested, Moldova's annual public investment would have been 3.9 percent of GDP, equal to the average of peer European countries.

The decline in Moldova's public capital stock has had a negative impact on infrastructure access and quality. Access to infrastructure is mostly below the average of peers and on a declining path. The indicator for public health infrastructure is the only one close to European levels and considerably above the one for emerging markets, but it steadily declined between 2012 and 2016. Survey indicators of the perception of infrastructure quality in Moldova are lower than for comparator countries and the gap widened after the financial crisis of 2015. Indicators of efficiency in the operation of public assets (loss of energy or water) are below those for peers.

The efficiency gap estimations for Moldova show that there is room for improvement in public investment management (PIM). The efficiency gap for infrastructure quality indicators is 32 percent, this gap is larger than for peer countries and is similar to the worst performers in emerging markets. The efficiency gap for physical output indicators is lower, at 25 percent, this is due to infrastructure being used beyond its normal useful life, as is the case in the electricity sector.

Strategic documents highlight the importance of increased investment to achieve a higher level of growth. The latest medium-term budget framework forecasts total capital expenditure at 5 percent of GDP, which would move the country closer to its European peers. Sector-level strategies list important investments needed to improve infrastructure and service delivery. These should guide the country's public investment priorities.

The existing regulatory framework for PIM is limited by its narrow coverage and inconsistent application. The framework proposes good practices in PIM throughout the different stages of the project cycle, but it covers a small share of total public investment, only 16 percent for year 2019. The PIM framework includes detailed provisions to ensure successful delivery of public investment and is more comprehensive than PIM frameworks in many other countries. However, the framework is not being effectively applied and it excludes several types of investments, including externally financed projects that represent a large share of major capital projects. These are also complex projects and strong PIM is needed to ensure they are delivered on time, within budget and with the expected impact. As a result, the impact that the existing framework has on public investment is very limited and overall PIM management is fragmented by funding sources or implementors.

This report does an assessment of Moldova's public investments institutions across the PIM stages for planning, allocation and implementation. Figures 1.1 and 1.2 show the results from an institutional design – are appropriate organizations, policies, rules and procedures in place—and effectiveness—is the framework correctly applied—perspective, respectively. With two exception, Moldova's formal institutions are at least as strong as the average for emerging markets and developing countries. The conclusion from Figure 1.2 is very different, with most institutions scoring below the average, reflecting the fragmented coverage of the existing framework.

Figure 1.1. Design of Public Investment Management Institutions

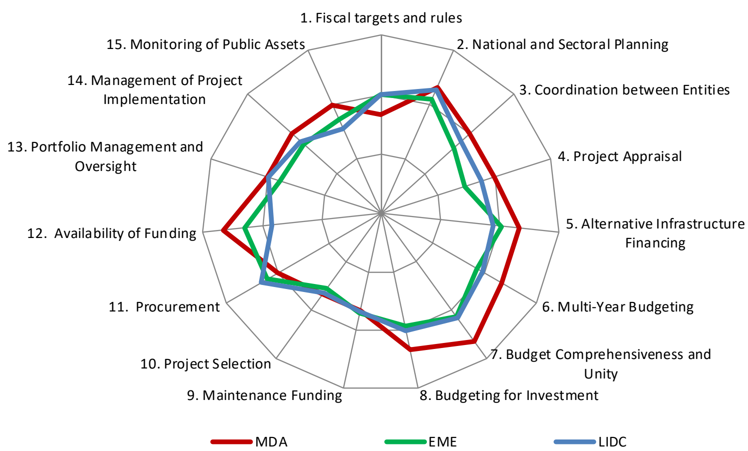
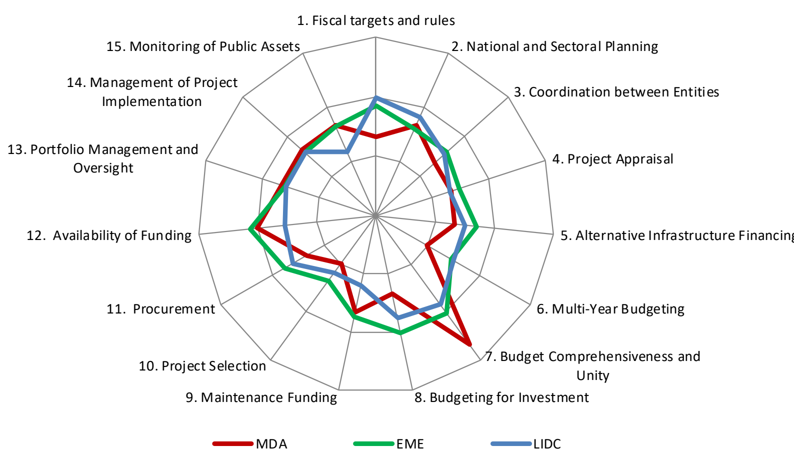


Figure 1.2. Effectiveness of Public Investment Management Institutions



The planned increase in public investment could have a larger positive impact if specific actions are taken to improve PIM. These can be arranged around three key topics: (i) increasing the coverage of the PIM framework to include all public investment projects; (ii) modifying specific budgeting practices to increase transparency and accountability; and

(iii) improving staff capacity to manage public investments. Some specific issues worth highlighting for the different PIM stages are:

- **At the planning stage:** Investment programs at the local level that are funded from the State Budget do not follow the same budgeting procedures or appraisal and selection process. More effective competition in markets for public infrastructure services could lead to more effective implementation of public investments.
- **At the allocation stage:** Inaccurate baseline costing of projects grouped together in a single "basket" undermines the credibility of the budget and the medium-term budget framework (MTBF), called "Cadrul Bugetar pe Termen Mediu" (CBTM), limiting their use as a tool to guide fiscal policy in the medium term.
- **At the implementation stage:** As many peer countries, Moldova's PIM is greatly influenced by donors' own policies, given their active involvement in financing infrastructure. The monitoring process depends on financing sources and limits central agencies' oversight of projects funded through various funds and programs.
- **Cross-cutting issues:** Government has limited capacity to appraise major capital investment projects, and to implement the PIM procedures included in the current regulations. Applying the existing framework will require providing direct training to staff on how to implement these procedures. The existing PIM regulation is good on paper but is not being applied consistently across projects. Effective implementation of these regulations will have a positive effect on many PIM institutions and practices.

Table 1.1 presents a summary of the areas were the authorities should focus their actions.

Table 1.1. Moldova: Summary Assessment

Phase/Institution			Strength	Effectiveness	Rec. #	Reform Priority
A. Planning	1	**Fiscal principles or rules**	**Medium:** Detailed MTBF including recurrent and capital expenditures, fiscal rule for central and local government, but limited link to debt sustainability.	**Low:** Escape clauses in fiscal responsibility law and unreliability of MTBF ceilings undermine general government debt sustainability.		**Low**
	2	**National and sectoral plans**	**Medium:** Investments in roads and energy are based on detailed national and sectoral strategies, but not fully costed.	**Medium:** Moldova 2020 does not provide a full picture of national priorities and the effectiveness of strategies is mixed across sectors.	**2**	**Medium**
	3	**Coordination between entities**	**Medium:** Rule-based capital transfers are introduced but notified late in the budget process; local government investment plans are not published as part of the State budget.	**Low:** Ad hoc programs for local projects, which were introduced prior to elections, follow different budget and monitoring processes and are affecting central-local coordination.	**3**	**High**
	4	**Project appraisal**	**Medium:** Legal framework supports rigorous technical, financial and economic analysis of major projects only for domestic funded projects, including risk analysis.	**Low:** Legal framework not applied in practice. Major capital investments are externally funded and not required to follow the appraisal process defined in the framework.	**4, 8**	**High**
	5	**Alternative infrastructure financing**	**Medium:** Legal monopolies and state-owned enterprises continue to play major roles. Comprehensive legal framework for PPPs.	**Low:** Limited competition in many markets for infrastructure provision, including for construction services. Several suspended PPPs.	**5**	**High**
B. Allocation	6	**Multi-year budgeting**	**Medium:** Multiyear ceilings are not binding for outer years; projections for capital expenditure do not have breakdowns to sectors.	**Low:** Credibility of medium-term projections and ceilings is undermined by inaccurate baseline of projects included in basket financing programs.	**3, 6**	**High**
	7	**Budget comprehensiveness and unity**	**High:** Capital spending and related recurrent spending is largely undertaken through the budget.	**High:** Extra-budgetary public institutions create some uncertainty about overall public investment, but not significant.		**Low**
	8	**Budgeting for investment**	**Medium:** Multiyear commitments of projects are not published; only part of capital expenditure is protected from reallocation.	**Low:** Large deviations from the public investment budget have been caused by inaccurate baseline and ad hoc programs for local projects.	**3, 6**	**High**
	9	**Maintenance funding**	**Medium:** Maintenance estimates should be made available during project preparation and are presented separately in the budget.	**Medium:** Maintenance can be identified in the budget and sectors responsible for large investments have developed methodologies.	**8**	**Low**
	10	**Project selection**	**Medium:** A central review of major capital investments should be undertaken following standardized criteria, though it does not cover externally financed projects.	**Low:** There is no pipeline of appraised projects, selection depends mostly on the availability of fiscal space and initiatives funded through donors are selected in an ad hoc fashion.	**4, 5, 7, 8**	**Medium**
C. Implementation	11	**Procurement**	**Medium:** Transparency in procurement is achieved through various mechanisms and an e-procurement system is in place.	**Low:** Inconsistencies between primary and secondary regulation that create confusion among public entities, providing them room for interpretation.	**5,9**	**Low**
	12	**Availability of funding**	**High:** Since 2016 framework for financing for capital spending has been predictable and payments have generally been timely.	**Medium:** Cash releases are prioritized during the month and the MoF established ad hoc moratorium on certain 2019 commitments.		**Low**
	13	**Portfolio management and oversight**	**Medium:** Comprehensive framework for oversight of budget-funded investment and external projects are covered by IFI rules.	**Medium:** Many of the legal arrangements have not been operationalized and project oversight arrangements are mostly for externally funded projects.	**3, 8**	**High**
	14	**Project implementation**	**Medium:** Regulation specifies clear rules and procedures for project adjustment, but these do not cover externally-financed projects.	**Medium:** Project adjustments follow donor's rules as per loan agreements. Changes to local-funded are within the 15 percent threshold.	**3, 8**	**Medium**
	15	**Management of public assets**	**Medium:** Asset registers are updated but are fragmented and do not reflect non-financial assets value accurately.	**Medium:** The quality of asset registers is questionable, but there are plans in place to improve it.		**Low**

To address these weaknesses, the recommendations in this report prioritize 9 actions at the key stages of the project cycle and for the Ministry of Finance's (MoF) capacity development. A summary of the recommendations is provided in Table 1.2 and a proposed action plan is provided in Appendix I.

Table 1.2. Moldova: Summary of Recommendations

Recommendation	Institution
A. Planning Sustainable Levels of Investment	
Ensure that the new strategic planning framework provides clear prioritization and clear linkages between strategies, plans and key investment projects	2
Integrate all local projects that are financed through the State budget into the same budget and monitoring process.	3, 6, 8, 13, 14
Adjust regulation to ensure that all projects have reached a minimum level of appraisal before selection.	4, 10
Strengthen competition and promote development of infrastructure markets by developing a comprehensive action plan for improvements in private sector provision of infrastructure services and in the markets for construction services.	5
B. Allocating Investments	
Ensure the transparency in baseline costing of projects included in basket financing programs.	6, 7, 8
Develop a phased approach to implement the selection process defined in the MoF Order 185-2015.	10
C. Implementing Investments	
Develop a comprehensive framework for reporting and monitoring that covers all major projects regardless of their financing sources.	13
Complete the ongoing MAPS Assessment with the World Bank that will help identify the key reforms required to improve procurement practices in Moldova.	11
D. Cross-Cutting Issues	
Amend existing regulation to increase the scope of application of the capital investment management framework to ensure that it covers a larger share of projects, with particular focus on major projects.	

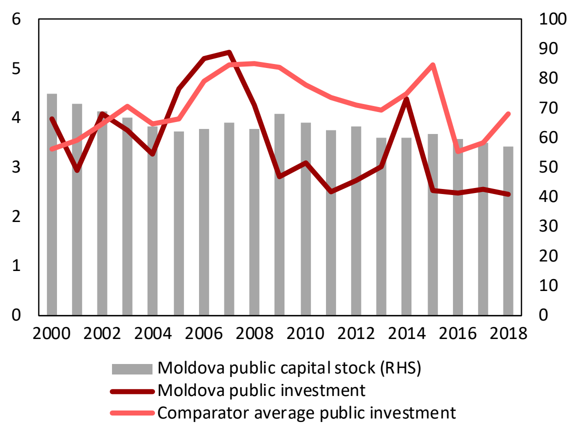
I. PUBLIC INVESTMENT IN MOLDOVA

A. Total Public Investment and Stock of Capital

1. The level of public investment has been insufficient to maintain the public capital stock in Moldova. In the 2000s, Moldova's public investments were at the same level as comparator countries in Europe.[1,2] However, public investment sharply declined at the time of the 2009 crisis. It has remained at a low level since then, except for 2014 when a sizable spending was made for road projects (Figure 2.1). In recent years, Moldova's public investment has been lower than peer European countries by around 1.4 percent of GDP. This caused the public capital stock to decline steadily from 75 percent of GDP in 2000 to 58 percent of GDP in 2018, reflecting the government's inability to replace depreciating public fixed assets. The level of Moldova's public capital stock is at the low-range of peer European countries' (Figure 2.2).

Figure 2.1. Public Investment and Capital Stock

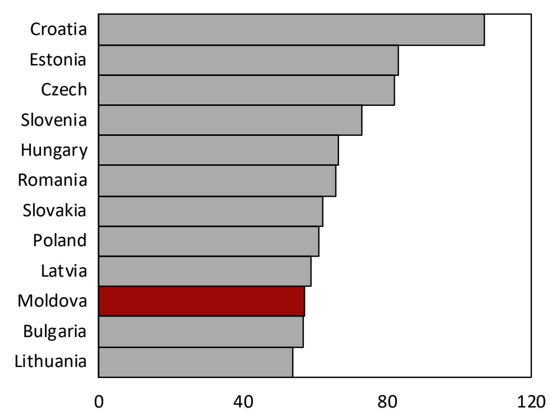
(Percent of GDP)



Source: Eurostat, staff estimates based on official data

Figure 2.2. Public Capital Stock, 2018

(Percent of GDP)



Source: staff estimates based on Eurostat and official data

2. An increased level of recurrent spending has created budget rigidities, which limit a fiscal space needed for scaling up public investments. General government recurrent expenditure steadily increased in the 2000s reaching a peak of 35 percent of GDP in 2009. Since then, deficit levels have followed changes in recurrent spending (Figure 2.3). Both recurrent and

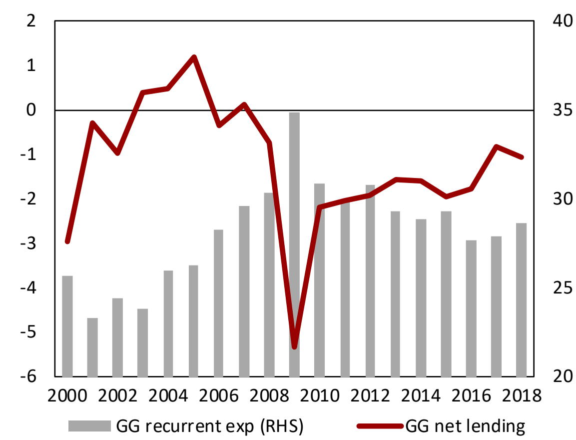
[1] In this report, public investment is defined as gross fixed capital formation of general government, derived from acquisition of fixed assets (item 31) recorded in the annual budget execution reports. Because the previous chart of accounts, which were used until 2015, mixed recurrent projects and on-lending with capital expenditure, public investment of State budget before 2015 was derived from the following items:
2004; 241+242+243+291+off budget externally financed spending (Form 2)–recurrent projects in Form 2
2005-08; 241+242+243+291–recurrent projects included in "capital investments"
2009-15; 241+242+243+minimum of "291" and "capital investments – recurrent projects"
Public investment of State budget in 2000-03 and that of local governments is derived from budget indicator statistics published by the MoF. Public investment of Road Fund is derived from its annual reports.

[2] Include Bulgaria, Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, and Slovak Republic.

capital spending of Moldova have been smaller than the average of peer European countries in terms of GDP (Figure 2.4). However, recurrent spending has steadily increased its share in the expenditure composition from 87 percent in 2000 to 92 percent in 2018, which is higher than the average of peer European countries (90 percent). Recurrent spending declined only gradually for the last decade, limiting the government's efforts to increase public investment levels without increasing the deficit.

Figure 2.3. General Government Deficit and Recurrent Expenditure

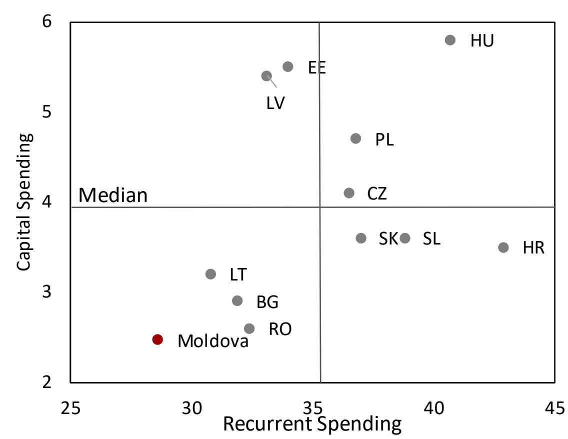
(Percent of GDP)



Source: WEO, staff estimates based on official data

Figure 2.4. Recurrent and Capital Expenditure, 2018

(Percent of GDP)



Source Eurostat, staff estimates based on official data

3. Budget under-execution has prevented public investment from being increased as planned. The public investment budget has been under-executed throughout the last decade, except in 2014 (Figure 2.5). The size of under-execution has deteriorated in recent years, reaching 1.4 percent of GDP in 2018. Moldova's public investment would have been at the same level of peer European countries if the budget had been fully implemented. Budget allocations for public investment have been significantly reduced through budget revisions and then under-executed during the year. It is not uncommon across peer countries that public investment faces some budget execution challenges, however, the magnitude of the problem appears to be greater in Moldova than in other countries (Figure 2.6). This under-execution problem has been mainly driven by the externally financed road projects, which will be discussed in more detail in the rest of the report. Poor budget execution has also increased volatility of Moldova's public investment, which is higher than in other peer countries (Figure 2.7). These factors and the ineffectiveness of PIM institutions discussed throughout this report, contribute to the inefficiency of public investment.

4. Moldova's public debt has been at a relatively low level, with public investments having contributed less to public debt evolution in recent years. Between 2016 and 2018, approximately 60 percent of external loans were raised for financing budget deficits on a disbursement basis. The level of external debt has declined slightly in recent years, mainly due to favorable exchange rate fluctuations (Figure 2.8). The level of domestic debt jumped in 2016 due to the issuance of government bonds to replace guarantees on commercial banks' liabilities granted during the 2014 and 2015 financial crisis. State-Owned Enterprises' (SOE) debt (including on-lending) decreased from 3.0 percent of GDP in 2012 to 1.7 percent of GDP in 2018. Since 2009, average local governments' debt (including on-lending) was limited to 0.5 percent of GDP.

Figure 2.5. State Budget Execution for Public Investment [1/]

(Percent of actual spending)

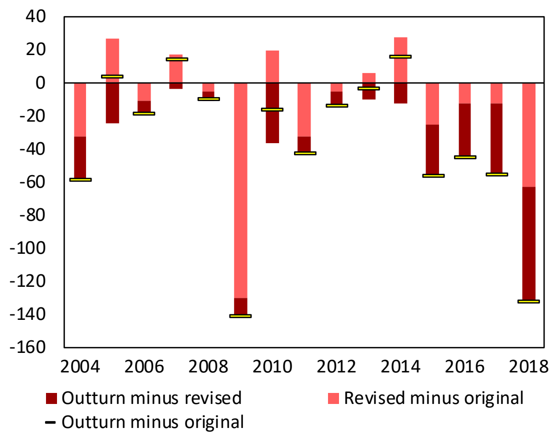
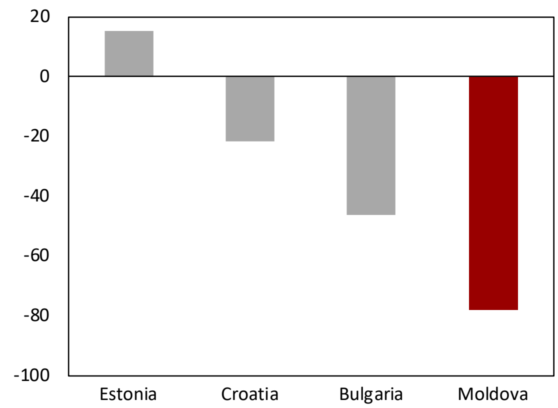


Figure 2.6. Outturn minus Original Public Investment Budget, 2016–18

(Percent of actual spending)



Source: staff estimates based on official data

Source: Budget execution reports of respective countries

1/ Yellow bar shows the execution versus the original budget (outturn - original budget) / outturn. Negative means the outturn was lower than the original budget. Red bars show the execution of the revised budget ((outturn – revised budgets) / outturn), which is always negative because execution can be at most equal to the revised appropriated amount. The pink bars show the change in the budget revision ((revised – original budget) / outturn). A negative pink bar shows that the budget was reduced during the revision process. In 2009, the original budget was 142 percent higher than the actual outturn, but the revised budget was only 10 percent higher than the outturn, indicating that there was a substantial reduction in the budget during the revision process.

Figure 2.7. Volatility of Public Investment 2000-18

(Standard deviation)[1/]

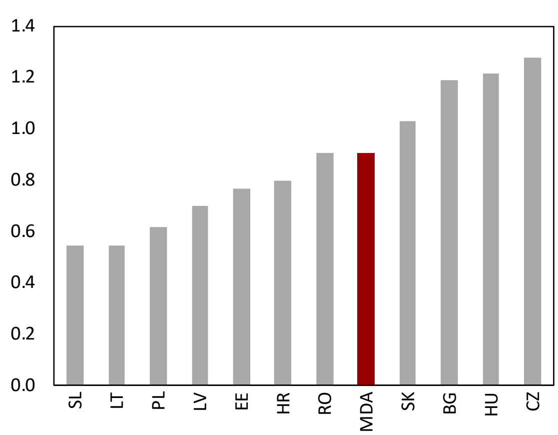
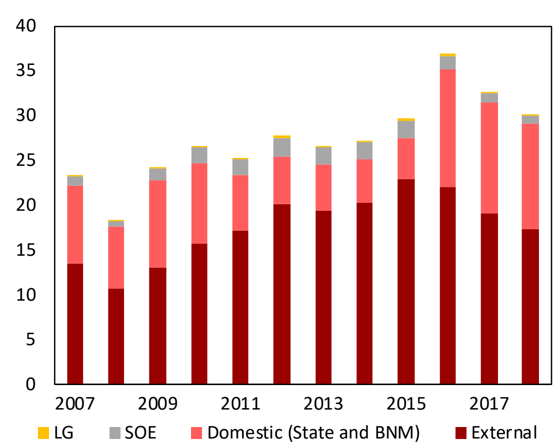


Figure 2.8. Public Debt

(Percent of GDP)



Source: Eurostat, staff estimates based on official data

Source: Public Debt Reports

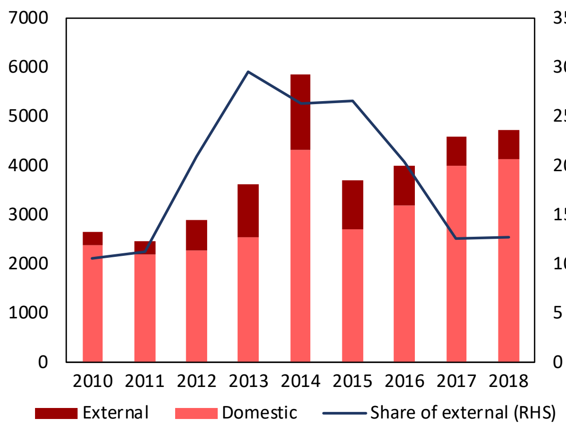
1/ Volatility is calculated as a standard deviation of year-on-year growth of public investments to GDP ratios.

B. Composition and Financing of Public Investment

5. There has been a low absorption of external financing for public investment. In the 2018 budget, 40 percent of the planned public investment expenditure was to be financed by external sources. However, due to the slow project execution only 13 percent of the actual expenditure in public investment was financed from external sources. (Figure 2.9). The under-execution of major projects, primarily in roads, has been a bottleneck to the government's intention to expand the use of external financing for public investment.

Figure 2.9. Public Investment, External v. Domestic

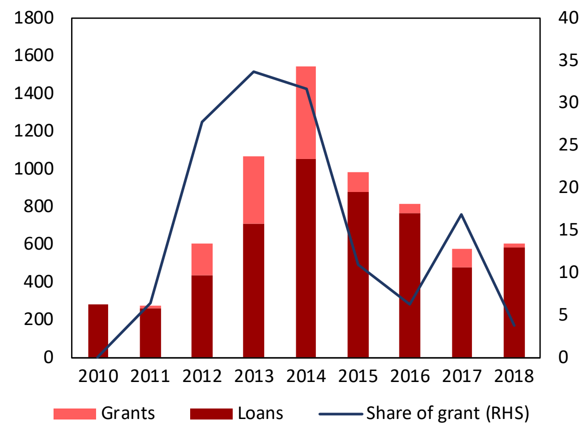
(MDL million, percent of total public investment (RHS))



Source: Staff estimates based on official data

Figure 2.10. Externally Financed Public Investment

(MDL million, percent of external financing (RHS))

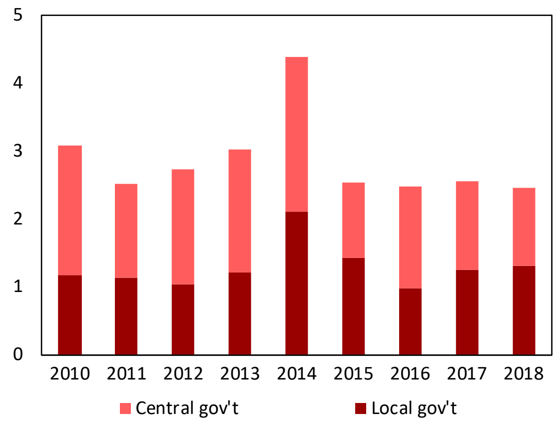


Source: Staff estimates based on official data

6. A large grant program temporarily increased external financing between 2013 and 2015. During this period, close to 30 percent of public investment was financed through external sources. In particular, the share of grants jumped to around 30 percent of total external financing in 2013-14 (Figure 2.10). This was caused by the Millennium Challenge Compact (MCC) grant, which financed MDL 1.5 billion of road rehabilitation projects in total. The MCC grant-financed road projects attained a high budget execution— 89 percent of the original budget amount was disbursed. After the end of the MCC program, external financing fell back to the pre-MCC level.

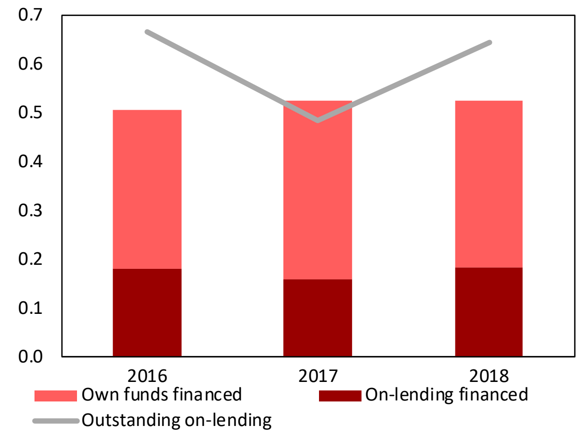
7. Local governments have carried out a large share of public investments. In 2018, 47 percent of total public investments were implemented by local governments (Figure 2.11). This high share of local investments results from the under-execution of central government projects. If the budget had been fully implemented, the share of local governments would have been limited to 25 percent in 2018. The level of local government investments has been stable around 1 percent of GDP for most years. In years leading to parliamentary elections (e.g. 2014), there tends to be a spike in local government investments, caused mainly by the introduction of ad hoc local road programs, issue to be further discussed in Section 3.C of this report.

Figure 2.11. Public Investment, Central v. Local Government
(Percent of GDP)



Source: Staff estimates based on official data

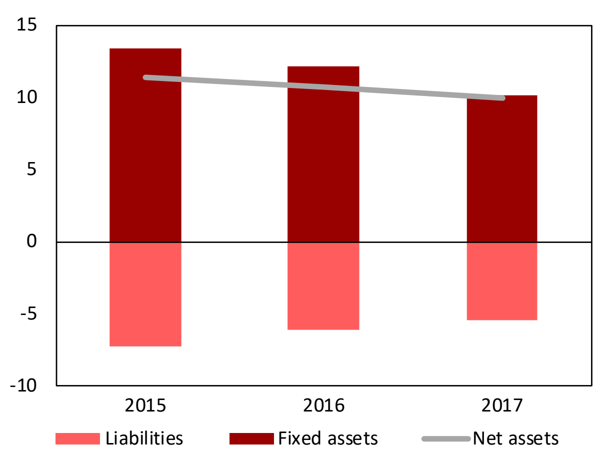
Figure 2.12. SOEs' Capital Investment and On-lending
(Percent of GDP)



Source: Staff estimates based on financial statements

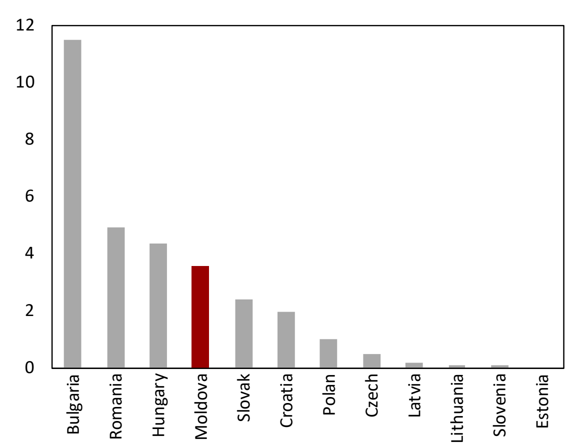
8. **A decrease in SOEs' capital stock has led to a lower SOEs' net wealth.** The level of capital investments carried out by SOEs has been low, limited to around 0.5 percent of GDP (Figure 2.12). While some SOEs in the energy sector (such as Moldelectrica and Termoelectrica S.A.) have been active in the capital projects financed by both on-lending and own profits, most SOEs are making little profit and prioritizing reduction of liabilities over maintenance of capital stock. Many SOEs are unable to replace depreciated assets. For example, 67 percent of train cars of Moldova Railway are beyond their useful-life, but the company has not spent resources on capital investments in five years.[3] In aggregate, SOEs' fixed assets have decreased faster than liabilities. SOEs' net assets are also on a declining path (Figure 2.13).

Figure 2.13. SOE Balance Sheet[1]
(Percent of GDP)



Source: Staff estimates based on APP reports
[1]This excludes SOEs that have been privatized or liquidated.

Figure 2.14. PPP Capital Stock
(Percent of GDP)



Source: World Bank and EIB databases, APP reports

[3] Government Decision 1042-2017; financial statements of Moldova Railway

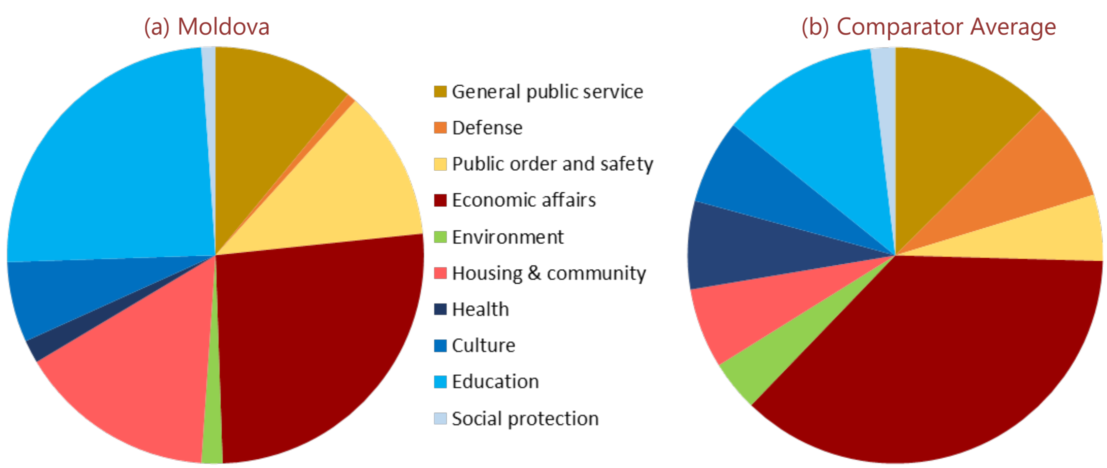
9. The value of Public-Private Partnership (PPP) projects in Moldova is limited. The total investments of ongoing PPP projects are around 3.6 percent of GDP in 2018[4] (Figure 2.14). Two-third of this amount is from the Chisinau Airport modernization contract, which is a concession type of arrangement. Currently, there is only one PPP in the narrow sense, which requires regular government spending: the new national stadium in Chisinau.

10. The allocation of public investment in Moldova is skewed towards small capital repairs, rather than major construction and rehabilitation. The share of education and community sector in the average functional allocation between 2016 and 2017, is higher for Moldova than for peer European countries (Figure 2.15). This reflects the high share of local government investments in Moldova, which is allocated to small capital repairs of school buildings and water pipes (see Institution 3). Public order and safety, and housing and community also represent a higher share in Moldova than in peer European countries. The share of the economic sector in Moldova is notably smaller than in peer countries due to a low level of implementation of major externally-financed projects in the road and energy sectors.

Box 2.1 provides a brief description of the components of the public investment budget in Moldova.

Figure 2.15. Public Investment by Function, 2016-17

(Percent of total public investment)



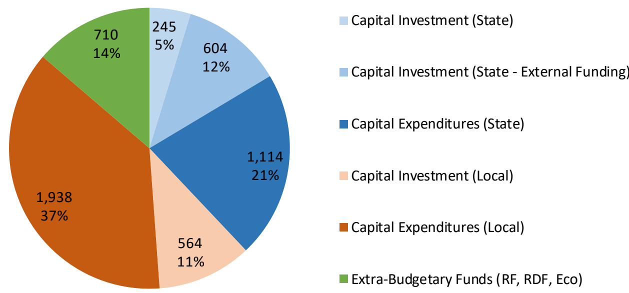
Source: Eurostat, staff estimates based on MoF "BOOST" database

[4] This is derived from the following publication of APP: "Contracte de parteneriat public-privat de interes local în derulare" and "Proiecte de parteneriat public-privat de interes național în derulare".

Box 2.1. Components of Public Budget

The Public Budget in Moldova is the sum of the State and the Local budgets. The former includes the resources spent by the central administration, the Health Insurance and the Social Insurance Funds.

Public investment includes capital expenditure done through the State and Local budgets. Within capital expenditure there is a subcategory called "capital investments" that covers externally financed capital projects and acquisition of new assets financed from domestic sources. Capital expenditures that do not fall within the classification of "capital investments" include capital repairs of existing assets financed from domestic sources.



The State budget also includes transfers to local governments and to extra-budgetary entities such as the Road Fund, the Regional Development Fund or the Environmental Fund.

Note: Sections of the pie chart with blue shading refer to resources from the State Budget, those in dark red from the Local budget and in green to extra budgetary funds.

II. EFFICIENCY AND IMPACT OF PUBLIC INVESTMENT

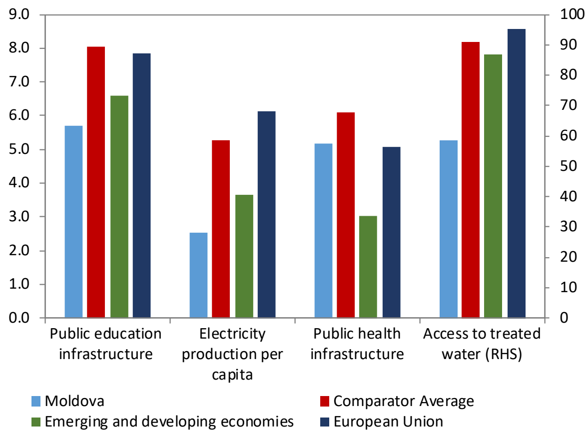
11. The quantity of services generated by Moldova's infrastructure is below peer countries. According to the methodologies of the IMF Board Paper, the physical output of infrastructure is measured by four indicators in the education, energy, health, and water sectors. [5] The output of Moldova's infrastructure is lower than peer European countries for all four indicators, and for three out of four indicators, it is also lower than the average of emerging and developing countries, many of which are at low income levels (Figure 3.1). The output of Moldova's infrastructure has been on a declining path in many, though not all, sectors (Figure 3.2). Consequently, citizens' access to infrastructure may be more restricted than before. For example, only 15 km of new paved roads were built per year on average between 2010 and 2016,[6] while the number of cars grew by 5 percent annually.

12. The quality of Moldova's infrastructure has deteriorated. According to the above noted methodologies, the quality of infrastructure, as measured by the survey of infrastructure quality undertaken by the World Economic Forum (2nd Pillar of Global Competitiveness Reports), is perceived lower in Moldova's infrastructure than in peer countries (Figure 3.3). This perception is supported by the sectoral data. The conditions of roads measured by International Roughness Indexes are worse than in other countries in the region (Figure 3.4). A relatively high level of investments in the water sector has lengthened water pipes in the country by 58 percent since

[5] "Making Public Investment More Efficient", June 2015, IMF
[6] Annual reports of the Road Fund.

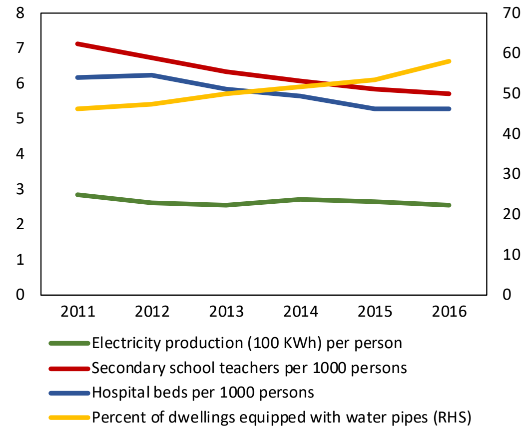
2011, but leakage is higher than in regional countries (Figure 3.5). In the energy sector, investments in heat pipes and transmission lines have reduced energy loss, but losses remain at the higher end of regional countries (Figure 3.6). A high level of public investments is required to prevent the further deterioration of infrastructure quality.

Figure 3.1. Measures of Infrastructure Access[1] (2016)



Source: World Bank, staff estimates based on Statistical Yearbook

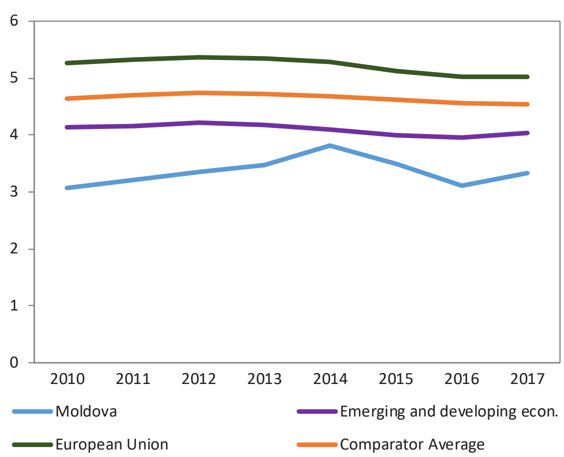
Figure 3.2. Moldova's Measures of Infrastructure Access 2011-16



Source: Staff estimates based on Statistical Yearbook

[1] "Public education infrastructure" shows number of secondary school teachers per 1,000 persons; "electricity production per capita" is as hundreds of kWh per person; "public health infrastructure" shows number of hospital beds per 1000 persons; and "access to treated water" is measured by percentage of dwellings equipped with water pipes. Moldova's data are derived from Statistical Yearbook 2018 of National Statistics Bureau and education statistics of Ministry of Education. Other countries' data are derived from the World Bank development indicators database.

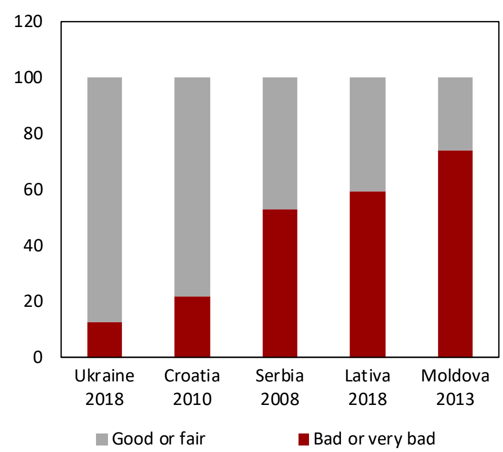
Figure 3.3. Perception of Infrastructure Quality



Source: World Economic Forum, staff estimates

Figure 3.4. Road Conditions

(Percent of total road lengths)

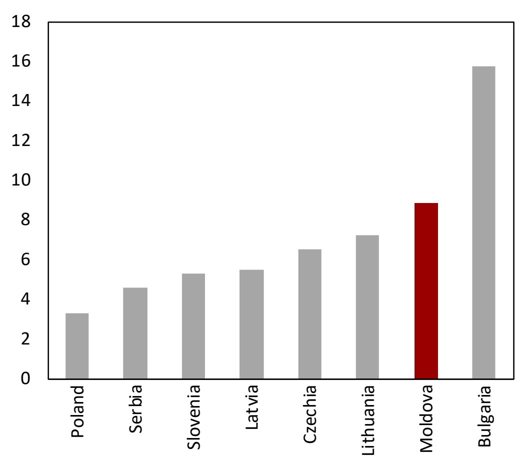


Source: Staff estimates based on official studies

13. A high level of efficiency gaps has further reduced the impact of public investments on the infrastructure quality. According to the above noted methodologies, the efficiency gaps in public investments are measured by Moldova's distance from the "efficiency frontier," drawn by using the public capital stock per capita and the quality and quantity (i.e. physical output) indicators noted above.[7] Moldova's efficiency gap measured by the quality indicators is 32 percent, bigger than the global average (22 percent) or the average of peer European countries (17 percent) (Figure 3.7). The efficiency gap measured by the physical outputs is also sizable (25 percent), but smaller than the global average (34 percent) (Figure 3.8). These imply that in terms of quantity, Moldova may still benefit from the infrastructure built during the existence of the Soviet Union. However, inefficiencies in public investments have failed to prevent the deterioration of the infrastructure quality, which will eventually make it impossible for infrastructure to produce the expected physical outputs. Because the physical outputs are decreasing in some sectors, the efficiency gap measured by the quantity indicators is likely to widen over time. These inefficiencies in public investments are rooted in the weaknesses of the PIM institutions discussed in the following section of this report.

Figure 3.5. Loss of Water, 2017

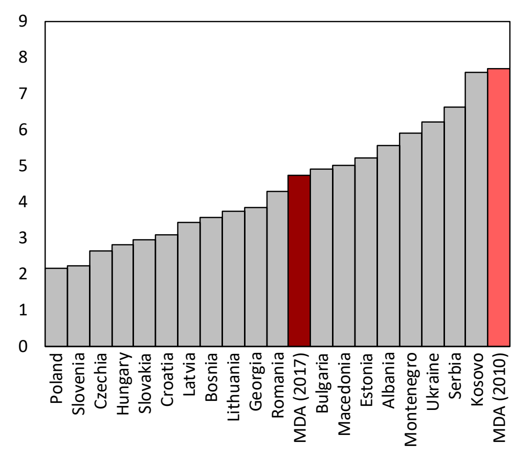
(Percent of total water supply)



Source: staff estimates based on Statistical Yearbook and Eurostat

Figure 3.6. Energy Loss, 2017

(Percent of energy consumption)

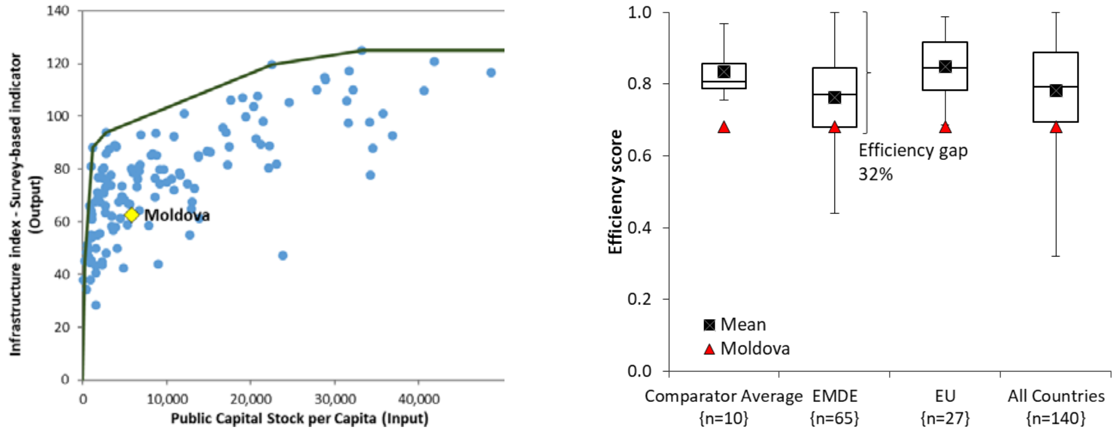


Source: Staff estimates based on Statistical Yearbook and Eurostat

[7] The public investment efficiency frontier follows the path of the countries that deliver the highest level of infrastructure outputs for the lowest amount of infrastructure investment over time. Where a country sits relative to that frontier provides a measure of its efficiency in converting infrastructure spending into infrastructure outcomes. The vertical distance below the frontier represents the efficiency gap.

Figure 3.7. Efficiency Frontier and Gap – Quality Output Indicators

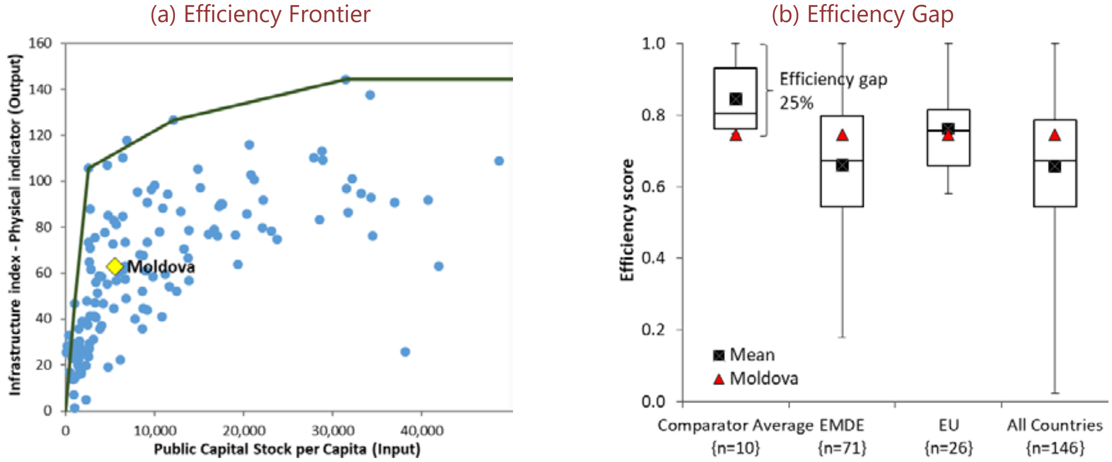
(a) Efficiency Frontier (b) Efficiency Gap



Source: Staff estimates Source: Staff estimates

Figure 3.8. Efficiency Frontier and Gap – Physical Output Indicators

(a) Efficiency Frontier (b) Efficiency Gap



Source: Staff estimates Source: Staff estimates

III. PUBLIC INVESTMENT MANAGEMENT INSTITUTIONS

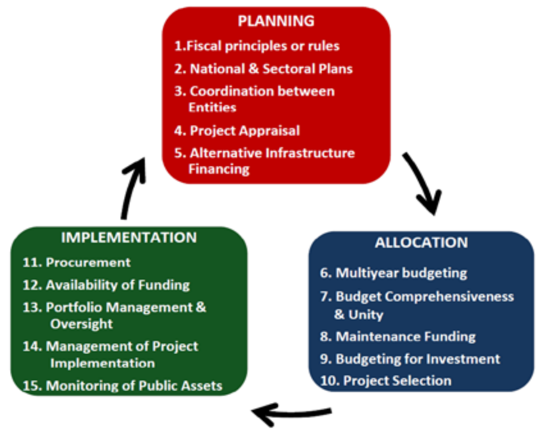
A. The PIMA Framework

14. The IMF has developed the Public Investment Management Assessment (PIMA) framework to assess the institutional design and effectiveness of public investment institutions of a country. It evaluates the procedures, tools, decision-making and monitoring processes, identifies the strengths and weaknesses of institutions and is accompanied by practical recommendations to strengthen them and increase the efficiency of public investment.

15. The tool evaluates 15 "institutions" involved in the three major stages of the public investment cycle (Figure 4.1). These are: (i) planning of investment levels for all public-sector entities to ensure sustainable levels of public investment; (ii) allocation of investments to appropriate sectors and projects; and (iii) delivering productive and durable public assets.

16. For each of these 15 institutions, three dimensions are analyzed and scored, according to a scale that determines whether the criterion is met in full, in part, or not met (see Appendix II for the PIMA Questionnaire). Each dimension is scored on three aspects: institutional design, effectiveness, and reform priority, and the average provides a score for each institution, which may be high, medium or low:

Figure 4.1. PIMA Framework Diagram



- Institutional design refers to the objective facts indicating that appropriate organizations, policies, rules and procedures are in place.
- Effectiveness refers to the degree to which the intended purpose is being achieved, i.e. it is applied and working or there is a clear useful impact.
- Reform priority aims at ranking the importance of the issues contained within the institution or the urgency to tackle them, for the specific conditions faced by Moldova.

B. Overall Assessment

17. The assessment of Moldova's infrastructure institutions tells two different stories depending on whether the evaluation focuses on the design or on the effectiveness score. From a design perspective, the country's institutions outperform the average comparator in both emerging markets and low-income developing countries. The regulatory framework that the country has in place includes key features of good PIM such as: (i) strong appraisal requirements; (ii) clear and transparent selection process; and (iii) information systems to capture project information; and iv. sound monitoring and implementation practices. Furthermore, in the potentially weak areas, such as procurement, the country can rely on donor policies that are likely to be used for procuring major capital assets.

18. The result on effectiveness is not as positive. The good practices included in Government Decision 1029-2013 and MoF Order 185-2015 become practically irrelevant for PIM due to the narrow scope of projects that should follow them (Box 4.1). This framework does not apply to projects different from capital investments in the State and local budgets, to projects of funds such as the Road Fund, Regional Development Fund (RDF), and Ecological Fund or externally financed projects.[8] Coverage of the framework is reduced to less than 20 percent of the public investment budget, comprised mostly of minor rehabilitation of government buildings. Moreover, MoF Order 185-2015 is not being implemented and PIM practices rely mostly on donor requirements which are not necessarily fully aligned with the country's priorities. With the exception of the institution that analyzes Budget Comprehensiveness and Unity, all others are at best equal to the average of comparator countries.

Box 4.1. Laws and Regulation that Support PIM in Moldova

Three documents define the basic Public Financial Management and PIM framework in Moldova: The Law on Public Finance and Fiscal Responsibility (LPFFR), Government Decision 1029-2013 and the MoF Order 195-2015.

- The LPFFR is an organic law that ensure the sustainable development of public finances, to strengthen the fiscal-fiscal discipline and to ensure the efficient and transparent management of public financial resources
- Government Decision 1029 -2013 establishes the Investment Working Group (IWG) and the regulation concerning the operation of this group in order to establish a transparent and efficient methodology for planning, implementing and managing capital investments.
- Ministry of Finance Order 185-2015 approves the instructions for managing public investments, covering the procedures from project planning through final evaluation.

19. The following sections provide a detailed assessment for Moldova's PIM institutions. Each institution is provided an aggregate score for institutional design and for effectiveness, including supporting evidence for the scoring.

C. Investment Planning

1. Fiscal principles or rules (Strength— Medium; Effectiveness—Low)

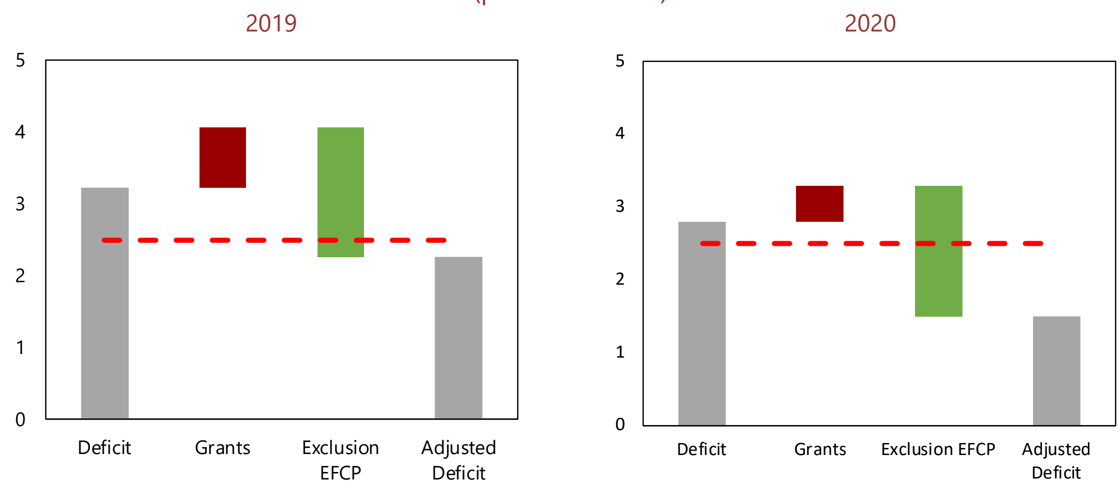
20. Moldova has several rules that guide fiscal policy at the central and local levels. The LPFFR was enacted in 2015 to ensure the long-term stability of the public budget. According to this law, the annual deficit should not exceed 2.5 percent of GDP after excluding grants. At the local level, the law on local public finances (Law 397, 2003) limits debt service on loans contracted or guaranteed to a maximum of 20 percent of revenues after excluding transfers for special purposes. The law on public debt (Law 419 -2006) requires the approval of the Ministry of Finance (MoF) for contracting of any long-term debt.

21. Various design issues limit the effectiveness of this regulation. The LPFFR fails to explicitly address fiscal sustainability as there is no reference to debt limits that should trigger remedial actions from the government when breached. Besides commonly used escape clauses,

[8] In the budget documentation, capital investments are a subset of capital expenditures. The regulation only applies to capital investments.

for example to address natural disaster needs, the law allows the exclusion of capital investments that are financed through external sources, both for the central and local governments. The actual deficit can deviate substantially from the target without actually breaching the rule. The most recent CBTM forecasts capital investments at 2.1 percent of GDP, on average, through 2021. Figure 4.2 compares the forecast deficit for 2019 and 2020 and how the exclusion of grants and of externally financed capital projects allows Moldova to remain below the 2.5 percent threshold.

Figure 4.2. Compliance with Fiscal Rule for 2019 and 2020
(percent of GDP)



Source: Medium-term Budget Framework 2019 – 2021
Note: Red bar is an increase in the deficit and green bar a decrease in the deficit

22. An MTBF is prepared annually and informs the budget process. It covers a four-year horizon, including three-year forecasts beyond the ongoing year; presents both revenues and expenditures in detail, following functional and economic classifications at the state, local and general government levels; and does a brief summary of the resources on-lent and the guarantees granted to other government institutions. The process for elaborating the MTBF requires detailed discussions with central agencies in which baseline scenarios based on the previous' years execution and new initiatives are discussed. It could be further strengthened if the deviations with previous versions were explained.

23. However, the MTBF does not provide effective support for medium-term planning of public investments. The expenditure forecasts for outer years are only indicative and not binding ceilings. These undergo substantial revisions during the update process of the MTBF and these changes are not explained in the document.

2. National and sectoral plans (Strength—Medium; Effectiveness—Medium)

24. Investments in the road and energy sectors constitute the bulk of government investments and are based on detailed national and sectoral strategies. Moldova 2020 provides a strategic development strategy, including for investments in roads and energy, which are 2 of 7 main priorities. The Transport and logistics strategy (TLS) 2022, includes a list of investment projects, with preliminary costing and ranking according to priority. Energy Strategy 2030 identifies specific priority projects for gas and electricity interconnectivity with Romania and Western Europe. Regulated energy companies prepare 10-year and annual investment plans for approval by the regulator. Moldelectrica's 10-year Electricity transmission plan provides a detailed list of investment projects, with indicative costing and detailed targets. Moldova 2020 includes estimated overall costs for investments in roads but not in energy, and output and outcome targets for investments in both roads and energy. TLS 2022, Energy strategy 2030 provide more detailed targets. Table 4.1 summarizes key strategic documents in Moldova.

Table 4.1. Moldova: Key Strategic Documents

Document	Timeframe	Investment Projects	Costing of investments?	Specific targets?
Moldova 2020	2010 - 2020	Main sectors	Main sectors	Yes
Transport and Logistics 2022	2012 - 2022	Detailed list	Yes	Yes
Energy strategy 2030	2013 - 2030	Main projects	No	Yes
Electricity transmission plan	2018 - 2027	Detailed list	Yes	Yes
Water supply and sanitation	2012 - 2027	Plan 2012-2017	Overall	Yes
Justice reform	2011 - 2016	No	No	No
Public Health	2014 - 2020	No	No	No
Decentralization	2011 - 2020	No	No	No
Moldova 2030	2020 - 2030	No	No	No

Sources: Moldova 2020 (2011), Transport and logistics strategy 2013 - 2022 (2012), Energy strategy 2030 (2013), Electricity transmission network development plan for 2018-2027 (2017), Water supply and sanitation strategy (2013), Justice sector reform strategy (2011), Public health strategy 2014 – 2022 (2013), Decentralization strategy (2011), Moldova 2030 concept paper (2018).

25. Moldova 2020 does not provide a full picture of public investment plans and the effectiveness of national and sector strategies is mixed across sectors. In principle, sector strategies should build on Moldova 2020, but this link is not always clear. While the road and energy sectors dominate public investment in Moldova, there are also sizable investments in water supply and sanitation, justice, education, health, and local governments. These investments are not identified in Moldova 2020 and the relevant sector strategies do not include comprehensive investment plans. The public investment system does not include systematic tracking of cost estimates from the planning stage to actual outturns and the realism of the initial cost estimates is not documented. However, output and outcome targets in Moldova 2020 have been tracked and reported.[9]

26. The draft new development strategy Moldova 2030 does not provide explicit links to public investment plans, and this may undermine long-term investment planning. Moldova 2030 is planned to be a vision document that will be supplemented by concrete sector

[9] Mid-term Evaluation of Moldova 2020, 2017.

strategies with 7–10 years perspective, and medium-term development plans that are reconciled with medium-term budgets. While this approach may work well for many small to medium-sized investment projects, it will not fully capture the need for coordination and prioritization of major, strategic projects across sectors.

27. It should be a medium priority to retain and strengthen the links between strategic planning and public investment. This can be done by identifying the major, long-term investment projects in a separate section or an appendix to Moldova 2030, and ensuring that these priority investment projects are fully reflected in all relevant sectoral strategies and development plans.

3. Coordination between entities (Strength—Medium; Effectiveness—Low)

28. Local governments submit to the MoF and discuss major capital spending plans. The Government Decision 1029-2013 requires local governments to submit to the MoF the proposals for "capital investment" projects, which cover major capital spending. The MoF will review the proposals and discuss the priorities. A list of "capital investment" projects is published in the local governments' budgets but not as part of the State budget documents.

29. A rule-based system has been introduced for capital transfers to local governments. In 2017, the amendments to the Local Public Finance Law introduced the new capital transfer system for the local road sector, to which 50 percent of road taxes is allocated. Allocation to each local government is based on a formula using population and road length as parameters. This system accounts for 80 percent of capital transfer to local governments included in the 2019 State budget. However, the transfer amount is notified to local governments less than six months before the beginning of a year, which limits their capacity to timely execute resources.

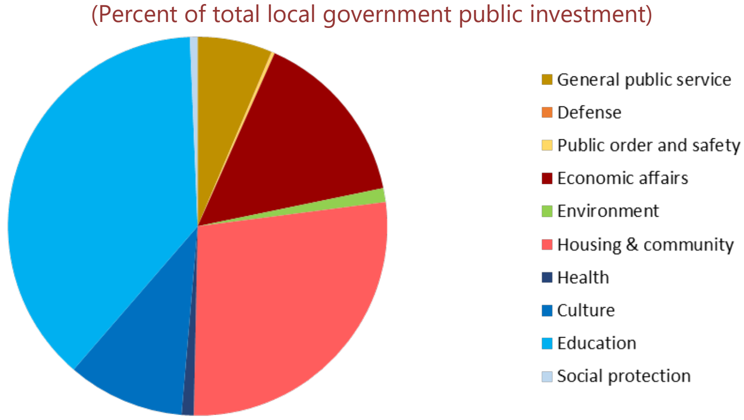
30. Public investment of local governments generally focuses on capital repairs of school buildings and water pipes. On average, between 2016 and 2017, two-thirds of local investments were composed of projects in the education and community sectors (Figure 4.3). The latter covers mainly work for water and sewerage systems. However, this composition changes when ad hoc programs for local road projects are introduced, as discussed below.

31. There are ad hoc programs for financing local projects, which undermine the coordination process and the efficiency in public investments. Particularly during a year preceding an election, such programs tend to be introduced to target the road sector. Such programs are included in the State budget or the budgets of funds financed by the State budget. They typically last for two to three years. Examples include (i) a program of the Road Fund for access roads to social-cultural institutions introduced in 2014 (a parliamentary election year); (ii) a surge in financing of road projects through the (RDF) in 2014; and (iii) the Good Road Moldova program included in the 2018 State budget (a year before a parliamentary election). As discussed below, the planning and execution process for these ad hoc programs differs significantly from the regular capital transfer system and undermines the central-local coordination to ensure the efficiency in local investments:

- **The main criteria on fund allocation through these ad hoc programs appear to be spreading funds to every community as extensively as possible:** The 2014 access road program distributed MDL 376 million to local governments for 826 road projects in communities throughout the country. More than half of these projects were given less than MDL 0.5 million (Figure 4.4). The 2018 Good Road Moldova was implemented by the Ministry of Economy (MoEI) and Infrastructure, rather than local governments, but essentially has the same set-up; it distributed MDL 1.2 billion for 1,440 road projects. More than half of these projects received less than MDL 1 million. Under these fund allocations, each project was able to fix a fraction of a road and created inefficiencies. For example, the average length of road segments covered by the 2018 Good Road Moldova were limited to 0.93 km.

Figure 4.3. Local Government Public Investment by Function, 2016–17

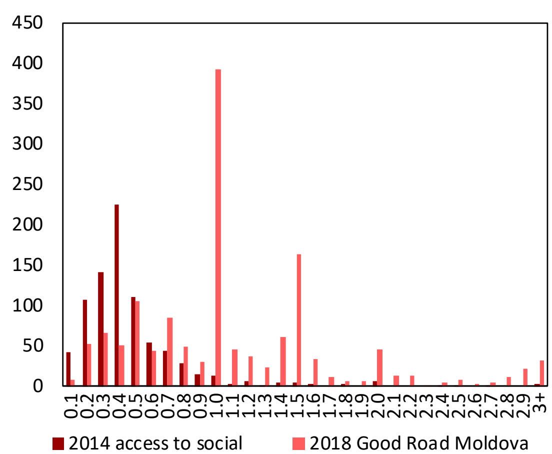
(Percent of total local government public investment)



Source: Staff estimates based on the MoF "BOOST" database

Figure 4.4. Histogram of Road Projects under the 2014/18 Programs by Size of Costs

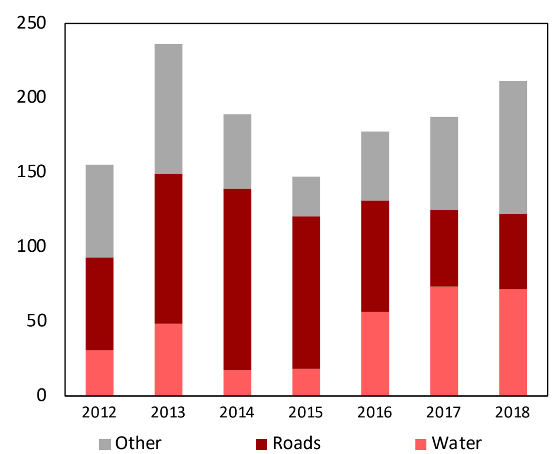
(Number of projects, x-axis: MDL million)



Source: Staff estimates based on Gov't Decisions

Figure 4.5 Actual Spending of Regional Development Fund

(MDL million)

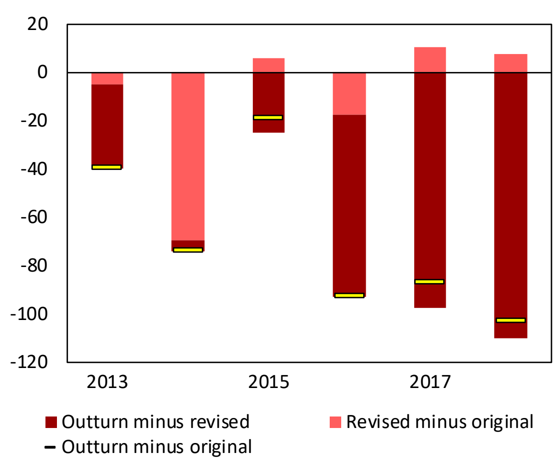


Source: Reports on implementation of SNDR

- **The fund allocation through the ad hoc programs is made outside the budget process without transparent coordination.** For the 2014 and 2018 programs, allocation of funds was made three months after the beginning of a year. This means that the local governments were not informed of the amount of allocation from these programs, when they prepared the budgets. Each community submitted a request directly to the State Road Administration (SRA) (in case of the 2014 program) or the State Chancellery (in case of the 2018 program); the allocation was decided by these entities without involving the MoF. The RDF also increased the allocation of local road projects in 2014 and 2015, but this decision was made at a council chaired by a deputy prime minister and the criteria on fund allocation were not transparent (Figure 4.5).
- **The projects funded through the ad hoc programs may follow different methodologies for the preparation, implementation, and monitoring.** For example, projects included in the 2018 Good Road Moldova had significant difference in per-km costs (Figure 4.6). This implies that some roads could have been costed without following standard costing methods. Unlike the "capital investment" projects, which are subject to a budget and monitoring process involving the MoF, these ad hoc programs were managed by the SRA, without monitoring or reporting involving any central agency. Road projects of local governments are also facing an under-execution problem similar to those of the central government. For example, the public investment budget of Chisinau has been significantly under-executed due mainly to delays in implementation of road projects (Figure 4.7). Under this situation, the absence of monitoring and reporting involving central agencies creates risks of inefficiencies in projects funded by these ad hoc programs.

Figure 4.6. Per-km Costs of Projects under the 2018 Good Road Moldova

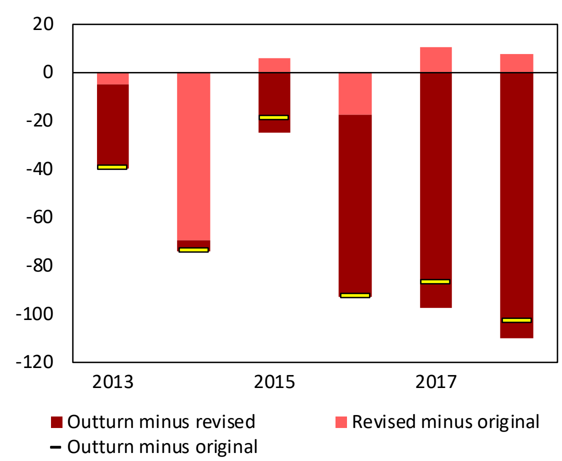
(MDL million)



Source: Staff estimates based on Gov't Decisions

Figure 4.7. Budget Execution of Public Investment in Chisinau Municipality

(Percent of actual spending)



Source: Chisinau budget execution reports

32. Contingent liabilities arising from projects of local governments, public corporations, and PPPs are disclosed in the budget documents. The draft State budget law includes (i) an "SOE Monitoring Report;" and (ii) a "Fiscal Risk Note," which contain analysis of on-lending, guarantees, PPPs, and financial performance of local governments and public corporations. However, analysis of PPPs is relatively high-level and does not include calibration of risk exposure of each PPP contract.

4. Project Appraisal (Strength—Medium; Effectiveness—Low)

33. The legal framework overseeing capital investments in Moldova includes key elements for good project appraisal. It defines the minimum standardized information that should be prepared for any project to receive budget allocations. This information should allow decision-makers to determine projects' readiness, to understand projects' short and long-term financial costs and benefits, and to compare initiatives across sectors based on standardized criteria. Using total project cost and duration as thresholds, additional requirements such as feasibility studies or undertaking cost-benefit or cost-effectiveness analysis must be met during project preparation. Specific templates were developed to capture all this information to facilitate the review of projects by decision-makers.

34. Nevertheless, the coverage of this legal framework is very narrow, and, in practice, project appraisal is rarely done before financial resources are allocated. Article 1 of MoF Order 185-2015 excludes "capital investment projects financed from funds and programs, the use of which is regulated by legislative acts, as well as the external sources that fall under the international agreements with the development partners," from the provisions of the order.[10] Many major capital investment projects, such as the road rehabilitation program, the construction of a transmission line connecting Moldova to Romania and the purchase of trolley buses for Chisinau can circumvent this process because the sources of their funding are external donors. For 2018, the budget included capital investments for MDL 3.3 billion of which only MDL 500 million were funded from the State budget, the majority of these being in education. Also, projects implemented by entities like the SRA through the Road Fund, or the projects financed by the RDF and the Environmental Fund do not need to follow the appraisal procedures included in the framework.[11]

35. Appraisal of externally financed, major capital projects are completed as part of donors' requirements. These have reliable project appraisal processes and analysis methodologies that in many cases can lead to better-developed projects than if left to local capacity. Moreover, donors can provide guidance on how other countries have implemented similar projects to reduce costs.

36. Relying only on the appraisal done by donors presents some problems for Moldova. The interests of the Moldovan government and the international agencies might not be fully aligned; donors have a project, or at best sector-specific perspective when appraising a project while the government should consider investments across all sectors. In addition, the

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[10] Order 185, Article 1.

[11] The major capital investment projects funded through these types of institutions are also externally funded.

complete feasibility studies are only completed after loans and grants are approved and signed, making it difficult to change the project scope if the results of the feasibility studies are negative.

37. **Developing project appraisal capacities is a high priority.** Countries that have faced similar limitations in project appraisal have developed training strategies that gradually increase the ability of officials to prepare and evaluate projects. In 1989 Colombia included capacity building as one of the pillars of its PIM reform (Box 4.2).

Box 4.2. Colombia's Strategy to Enhance Project Preparation and Selection

In 1989, the Colombian government decided to reform its PIM system to ensure better project preparation and selection. This reform—enacted by legislation—revolved around four critical areas: legal and institutional framework, methodological development, information systems and capacity building.

Legal and Institutional framework. The budget process was reformed; to be eligible for budget funding, all projects had to be registered in a national project data bank; the issuance of directives guiding public investment was delegated to the planning authority; and the PIM division became responsible for managing the new systems.

Methodological development. A series of simple project appraisal methodologies were developed and applied to all projects registered in the data bank.

Training. A training strategy was implemented, which included direct training, training of trainers and the creation of graduate programs on public investment evaluation and appraisal at local universities.

Information systems. A specialized software was developed and installed in all national institutions to capture information on project proposals, based on strictly defined flowcharts.

By 1992, this strategy had achieved the following results:

- The data bank housed by more than 17,000 projects at various levels of preparation;
- approximately 2,300 projects had been appraised following the methodologies developed;
- more than 2,000 public employees were trained in project evaluation;
- 4 university programs were created.

This system has evolved after its initial implementation and it is still the tool that the Colombian Government uses for managing public investments covering all stages of the project cycle.

Source: staff

5. Alternative infrastructure financing (Strength—Medium; Effectiveness—Low)

38. **The framework for alternative infrastructure financing in Moldova is still evolving, as legal monopolies and other state-owned companies continue to play major roles in infrastructure provision.** The telecommunications, air and road transport sectors are open for competition, whereas rail transport, power supply and water supply are done by national, regional and local monopolies. There is a national regulator for energy and water supply, but local governments also play a role in setting water tariffs. There is a national regulatory agency for electronic communications and a civil aviation authority, while rail and road transport are regulated by the MoEI, including prices for transport services. SOE financial performance is

monitored and reported annually by the MoF. SOE investment plans are reviewed by the MoF (for externally financed projects) and the SOE owner ministry/agency (for both externally and internally financed projects) but the specific investment plans are only published if they include external financing or are subject to regulatory approval.

39. There is a comprehensive strategic, legal and regulatory framework for PPPs. PPP decisions and projects are listed on a publicly available website, but with limited disclosure of financial information, and contracts are not published. Table 4.2 provides an overview of central and local government PPP projects in Moldova.

Table 4.2. Moldova: Status of PPP Contracts (2019)

Area	Total	Total		Active		Suspended		Terminated	
		Central	Local	Central	Local	Central	Local	Central	Local
Health care	16	4	12	3	4	1	3		5
Housing public employees	7	5	2	4			1	1	1
Modernization of public services	22	6	16	5	10	1	3		3
Total	**45**	**15**	**30**	**12**	**14**	**2**	**7**	**1**	**9**

Sources: PPA, MoF

40. In practice, there is very limited competition in many markets for infrastructure provision, including for construction services. Twelve regional SOEs dominate the national market for road maintenance and reconstruction and these do not participate in tenders. Many tenders for road construction have failed because of a lack of qualified bidders. There are several cases where international bidders have won projects through low bids, but subsequently encountered financial difficulties and abandoned the project. International construction companies engaged in Moldova have also, in some cases, been unable to find local subcontractors to work on their projects. Tariffs for electricity and water supply are low considering the need for more systematic maintenance and significant investments.[12] The boards of regulatory agencies are appointed by Parliament and put significant emphasis on avoiding tariff hikes.

41. Financial oversight of SOEs is not fully effective. SOEs have often been unable to repay investment loans and the government has had to cover these. In recent years several measures have been introduced to contain SOE arrears and better control the borrowing of these entities, including that all lending to SOEs is contracted by the government and on-lent to the SOEs. However, ministries have limited capacity to assess the financial implications of SOE loan-financed investments.

[12] This is documented in Moldelectrica's Electricity transmission system development plan 2018 – 2027 (2017).

42. The number and scope of PPPs are limited, and several PPPs have been suspended or cancelled due to suspected irregularities. Despite a comprehensive legal and regulatory framework for PPPs, project development, appraisal and selection has often been influenced by political decisions and deviated from prescribed procedures. This has led to approval of PPP projects that fail to meet accepted standards and to subsequent delays, suspensions and cancellations. As illustrated in Table 4.2, of the 45 approved PPPs at the central and local levels, about half are still active while 9 are suspended and 10 are cancelled. More recently, the government has taken legal steps against additional PPP arrangements, including major central government PPPs.

43. Improvements in the framework for private sector provision of infrastructure services and in the markets for construction services is a high priority. Measures to improve competition, including by letting regulatory bodies set tariffs that reflect the need for capital replacement and by increasing market access, will be important. There should also be a critical review of the role of SOEs in possible market distortions and steps should be taken to eliminate such distortions during the ongoing streamlining of the whole SOE sector.

Recommendations

Issue 1: Moldova 2020 identified key investments in the road and energy sectors but did not provide a full picture of public investment and the effectiveness of national and sector strategies has been mixed across sectors. Moldova 2030 is planned to be a high-level vision document without specification of specific investment projects

Recommendation 1: Ensure that the new strategic planning framework provides clear prioritization and clear linkages between strategies, plans and key investment projects.

- Identify the major investment projects in a separate section or an appendix to Moldova 2030;
- Provide an indicative resource envelope for public investments over the 2020 – 2030 period, including all possible financing sources;
- Provide indicative allocation of resources to main sectors;
- Provide initial cost estimates and targets for major investment projects during 2020 – 2030;
- Ensure that major investment projects are fully reflected in sectoral strategies and development plans.

Issue 2: A large share of local projects are financed from ad hoc programs, which are introduced during election years and follow different budget and monitoring processes.

Recommendation 2: Require that all local projects that are financed through the State budget follow the same approval and monitoring process.

- Include in the State budget document annexes that list all local projects financed from the State budget directly or through the funds such as the Road Fund, RDF, and Ecological Fund.

- Require all local projects financed from the State budget (directly or through the funds) to follow the same process for budget proposals and reporting as those considered as "capital investments."
- Apply the same standards on project costing and selection to all local projects, regardless of their financing source or whether they fall within "capital investments."

Issue 3: Projects are selected without following the appraisal procedures defined in the law.

Recommendation 3: Adjust regulation to ensure that all projects have reached a minimum level of appraisal before selection.

- Determine a minimum level of appraisal that all projects must achieve before being eligible for any type of funding.
- Develop a training strategy to increase the capacity of line ministries to prepare projects up to this minimum level.

Issue 4: Legal monopolies and other state-owned enterprises continue to play major roles in the provision of public infrastructure. There is limited competition from the private sector in many markets for infrastructure provision, including for construction services. Several delayed, suspended and cancelled PPPs indicate that there are important weaknesses in the selection and approval of PPP projects.

Recommendation 4: **Strengthen competition and promote development of infrastructure markets:**

- Ensure the independence of regulatory bodies and allow tariffs that reflect the need for systematic asset maintenance and capital replacement.
- Increase market access for domestic and international competitors, including through improved procurement mechanisms and practices.
- Review the role of SOEs in possible market distortions.
- Take steps to eliminate such distortions during the ongoing streamlining of the whole SOE sector, including by eliminating SOE market privileges and privatizing, restructuring or closing down SOEs that undermine effective competition in infrastructure markets.

D. Investment Allocation

6. Multi-year budgeting (Design—Medium; Effectiveness—Low)

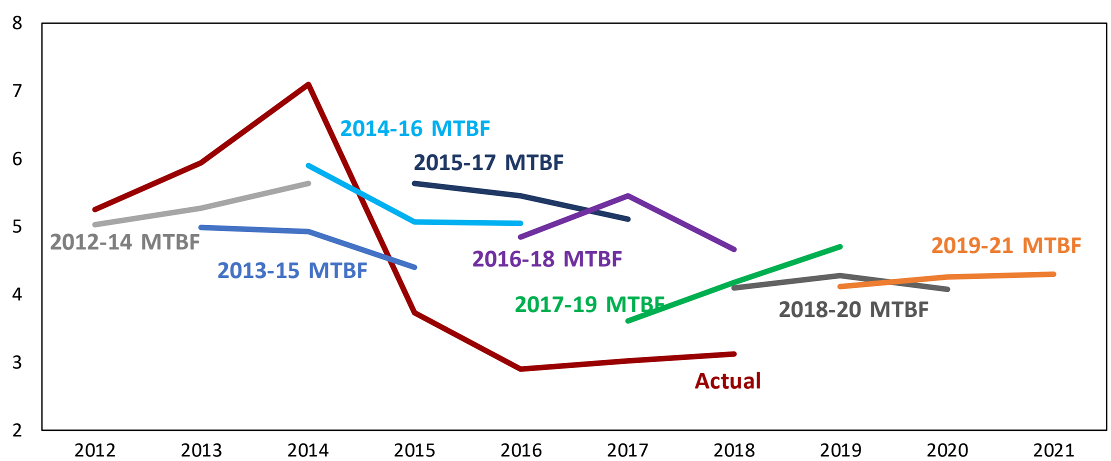
44. **The MTBF documents include medium-term projections of capital spending and its ceilings; and total project costs and annual breakdowns are published.** The MTBF process has been in place for more than a decade and was given a solid legal ground by the LPFFR. The MTBF documents are approved by the government, published, and submitted to Parliament for information in July or August. The CBTM for 2019-21 includes (i) three-year projections of capital expenditure of "national public budgets," which combine central and local government budgets,

and (ii) three-year ceilings on spending for "capital investments" broken down by each sector (i.e. function). "Capital investments" cover (i) externally financed capital projects; and (ii) acquisition of new assets financed from domestic sources, but do not include capital repairs of existing assets financed from domestic sources.[13] "Capital investments" account for around a half of total capital expenditure. Under the LPFFR, the ceilings on capital investments are binding for the budget year and indicative for outer years. The draft State budget law includes an annex that shows total and annual costs for the next three years of projects included in "capital investments."

45. While the MTBF process provides an anchor for overall fiscal positions, the projections for capital spending differ significantly from the budgets and actuals. Since 2015, the CBTM projections for capital expenditure have been higher than the actual spending by around 1.5 to 2.0 percent of GDP (Figure 4.8). The size of forecast errors is high not only for outer years but also for budget years. The amount of capital expenditure in the budgets was lower than that of the CBTM ceilings for the budget year by 1 percent of GDP on average between 2017 and 2018. This means that the CBTM is not effective to guide the preparation of annual budgets, which will be approved only in a few months after the CBTM approval. The outer years' projections have been also modified significantly by subsequent years' CBTMs. These changes and deviations are caused partly by a tendency that capital spending is used as a residual to meet fiscal objectives when updating the fiscal framework. However, the poor planning and budget execution of externally financed projects appear to be bigger factors for undermining the MTBF credibility, as discussed below.

Figure 4.8. MTBF Ceilings and Actuals of Capital Expenditure

(Percent of GDP)

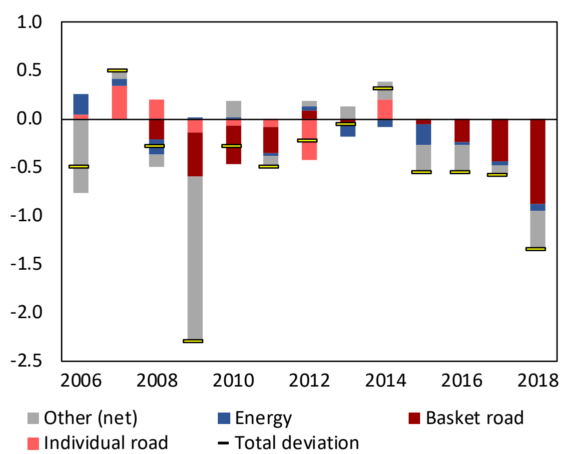


Source: Staff estimates based on CBTMs

[13] As examples, purchase of a new gasification machine for a school financed from domestic source is included in capital investments, while capital repairs of roads financed from domestic source (e.g. Good Road Moldova discussed in Institution 3) are not. See MoF Order 208-2015.

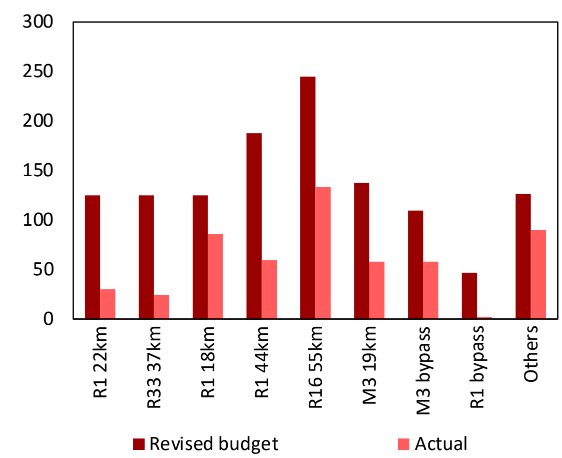
46. The lack of budget transparency in road projects covered by "basket" financing programs is one of main causes of the MTBF challenges. The largest of such programs is the "support program for road sector" (PSPSD) funded by the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank funded. It finances rehabilitation of several different highways. In 2018, the PSPSD alone accounted for 47 percent of total capital expenditure in the original State budget. Particularly for the last three years, the basket financing programs in the road sector have been responsible for a majority of under-execution of the public investment budget (Figure 4.9). Because the basket programs are treated as single projects, the budget documents do not show which roads are to be rehabilitated at what costs under these programs. Only for 2018, the SRA published a comparison between revised budgets and outturns of individual projects financed under the PSPSD, showing potential costing problems. Three highway segments with different lengths and designs (R1 22km, R33 37km, R1 18 km) were costed at the exact same amount (MDL 124.86 million) in the revised budget. Such inaccurate costing resulted in outturns being unrelated to budgets for all projects included in the PSPSD (Figure 4.10). This project-level costing was submitted to the MoF in the budget process, but it seems that the SRA was not challenged sufficiently. To strengthen the MoF's challenge function, transparency in individual projects covered by basket programs needs to be ensured in the CBTMs and budget documents.

Figure 4.9. Outturn minus Original Budget of State Budget Public Investments
(Percent of GDP)



Source: staff estimates based on official data

Figure 4.10. Revised Budgets and Outturns of Projects under the PSPSD, 2018
(MDL million)



Source SRA annual report for 2018

7. Budget comprehensiveness and unity (Design—High; Effectiveness—High)

47. Capital spending and related recurrent spending is largely undertaken through the budget process. There are several extrabudgetary public institutions in Moldova. In principle these should be self-financing, but in practice most of them receive most or all their funding from the government budget. According to the MoF, the capital spending done by these institutions is very limited and is largely funded by capital transfers from the budget. Some government capital spending is channeled through SOEs, including the SRA. All government capital spending projects, including donor-funded projects and direct payments related to these, are included in the budget and in public accounts. The MoF receives monthly reports from the line ministries that are implementing externally financed projects and consolidates project expenditures in the budget accounts, including for direct payments by funding agencies. MoF prepares a consolidated budget comprising capital and current spending according to economic, functional and program classifications. There is a detailed overview of all capital projects in a table appended to the annual budget law, but some of these receive broad lump-sum allocations.

48. The budget generally provides a good guide to overall planned public investment, although the existence of extra-budgetary public institutions outside the budget framework creates some uncertainty. Each of these institutions submit their annual financial and operational reports to their parent (founding) ministry, but these reports are not consolidated or published and there is no public information about these entities' share of public sector revenues and expenditures. The budget documents provide a list of extra-budgetary public institutions that receive transfers from the budget, but there is no consolidated list of all extra-budgetary institutions. The MoF agrees that these institutions belong to the government sector according to Government Finance Statistics Manual 2014, but they are currently not included in Moldova's GFS reporting. The Court of Accounts indicate that there may be some consistency issues in the reporting of externally funded projects as part of the budget accounts, but this is likely to be related to technical errors more than to systemic issues. There are clear requirements that budget reports for externally financed projects follow the regular budget classification. Some transfers for capital spending by extrabudgetary institutions and SOEs, in particular the RDF, the Environment Fund and the SRA, are included in central government current expenditure. However, the assets should eventually be recorded in local government accounts and consolidated general government accounts should give a correct picture of overall capital spending.

49. Given the limited size of investment spending outside the budget, changes in this area are a low priority. The ambiguities created by the extrabudgetary institutions are not a major issue from a budget comprehensiveness perspective. However, a correct definition of government activities and gradual integration of extrabudgetary expenditures into regular budget processes is important for budget transparency, as discussed under institutions 6 and 8. This could include the following approaches:

- Restructure extrabudgetary institutions as regular budget institutions
- For those that remain outside the budget, provide summary revenue and expenditure projections for these entities as an annex to the budget documents.

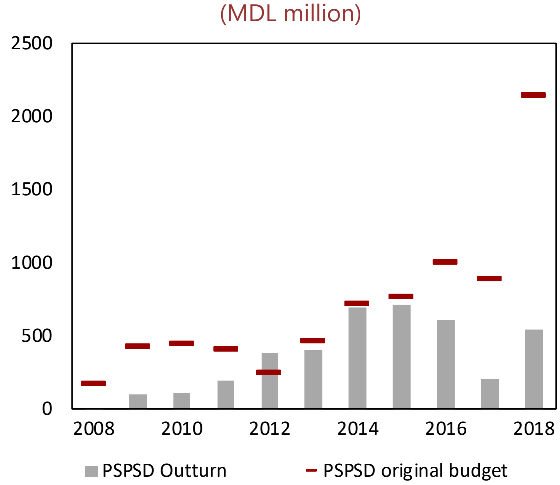
8. Budgeting for Investment (Design – Medium; Effectiveness – Low)

50. Capital expenditure is appropriated on an annual basis, and the budget documents present total costs but not multiannual commitments. Article 5 of the LPFFR sets out the annuality of the budget. An annex to the draft 2019 State budget law includes total costs of each capital investment project but does not include already contracted amount.

51. Budget credibility has been undermined by inaccurate baseline of major capital projects. Capital expenditure in the 2018 State budget was under-executed by MDL 2.6 billion (1.4 percent of GDP), out of which MDL 1.6 billion arose from the PSPSD alone. Since the inception in 2007 of the support program for the road sector, the PSPSD budget has almost always been under-executed except in 2012 (Figure 4.11). This is caused mainly by the baseline not being credible, as discussed in Institution 6 (multiyear budgeting). Other sectors, such as energy, appear to have similar challenges (Figure 4.12). Estimating a more realistic baseline would require better understanding of Moldova's absorption capacity (e.g. how many kilometers of roads an economy can build in a year). In case of the road sector, this may be a difficult task given the high volatility of sector spending (see below). Assessment of absorption capacity requires improvements to project appraisal, discussed in Institution 4.

Figure 4.11. PSPSD Budget and Outturn

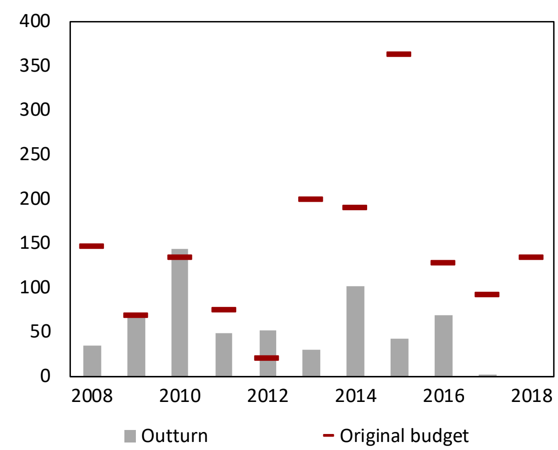
(MDL million)



Source: Staff estimates based on official data

Figure 4.12. Energy Sector "Capital Investment"

(MDL million)



Source: Staff estimates based on official data

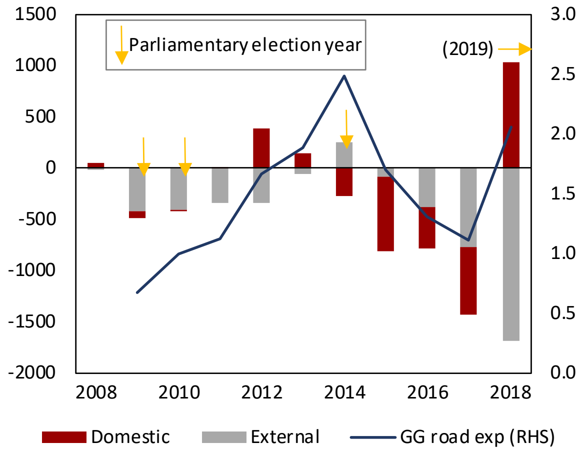
52. Appropriations for capital expenditure other than "capital investments" can be reallocated with the agreement of the MoF. Article 60(1)(b) of the LPFFR requires the parliamentary approval of the revised budget to change appropriations for "capital investments." However, the same article allows the MoF to reallocate appropriations for other capital expenditure within the same spending agency. While reallocation from capital to recurrent expenditure is rarely made, the amount of "capital investment," which is protected from reallocation, has been limited to around one-third to half of capital expenditure.

53. The law requires completion of ongoing projects to be prioritized over new projects in allocating budget resources. Article 40(3)(a) of the LPFFR requires that a major part of the resources allocated for capital investments is for ongoing projects. The authorities confirmed that during the budget allocation process priority is given to ongoing projects, to which normally receive close to two thirds of the budget resources.

54. The implementation of ongoing external projects appears to be affected by the introduction of ad hoc programs for local projects. The road sector spending (including recurrent maintenance) tends to experience a surge in years leading to the elections. During these years, domestically financed road projects tend to be over-executed (Figure 4.13). This is due mainly to the ad hoc programs for local projects, already discussed in Institution 3. Although overspending of domestic projects do not reduce appropriations for externally financed projects, scaling up domestic projects has reportedly caused delay in the implementation of externally financed projects, since they absorb a large share of available contractor services. Similar problems appear to exist in other sectors. Spending for water sector has been dominated by domestic, local-level projects financed through the RDF and Ecological Fund in recent years (Figure 4.14). The externally financed projects included in the 2017 and 2018 budgets were all cancelled or suspended. Addressing these issues requires strengthening the central-local coordination discussed in Institution 3.

Figure 4.13. Outturn minus Original State Budget of Road Spending

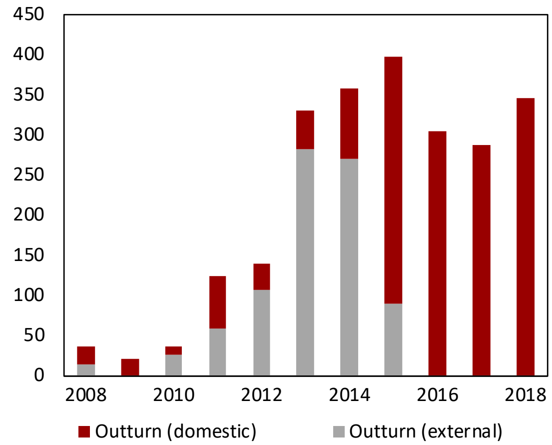
(MDL million, percent of GDP (RHS))



Source: Staff estimates based on official data

Figure 4.14. Outturn of State Budget Water Sector Spending

(MDL million)



Source: Staff estimates based on official data

9. Maintenance funding (Design—Medium; Effectiveness—Medium)

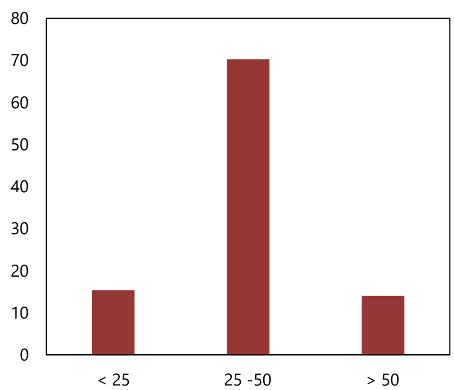
55. Standardized methodologies for estimation of routine maintenance and major capital repairs are not available. Most maintenance needs at the central and local levels are decided on an ad hoc basis with the main criteria being to ensure service delivery. For example, the roof of Chisinau City Hall was repaired once the risk of collapse became significant and a school's heating system was upgraded when it became inoperative near the start of winter.

56. For some areas of the economy, sector-specific methodologies are used to determine maintenance needs. For the roads sector, which captures the largest share of capital investment, maintenance is determined based on the results of a highway development and management model that was used to evaluate the road network a few years back and through regular testing of road conditions done through a mobile lab. Major interventions are also prioritized on the basis of improving road safety in the country. The energy sector develops investment and maintenance plans for the electricity and gas networks. Moldelectrica's "Electricity network development plan for 2018–2027" includes detailed information of the investments in the sector. The maintenance plans aim to improve the condition of assets to comply with the service requirements and increase the reliability of the transmission grid.

57. However, resources are not being consistently allocated to maintenance. For regulated services, tariffs are kept low at the expense of much needed investment and maintenance, given the obsolescence of some equipment (Figure 4.15).[14] The electricity sector development plan identifies low tariffs as one cause behind the inability of the company to renew its equipment. The appearance of ad hoc programs such as the good roads program in 2018 can divert resources from planned maintenance (Figure 4.16).

Figure 4.15. Operating Period of Power Transformers

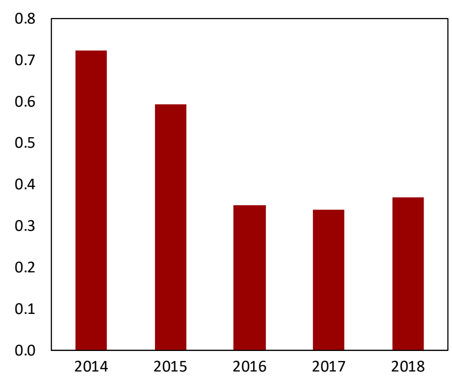
(Percent of total transformers)



Source: Electricity network development plan for 2018 – 2027 and staff calculations

Figure 4.16. Recurrent Road Maintenance Spending from Road Fund

(Percent of GDP)



Source: Road Fund

58. Maintenance expenditure can be identified in the national budget and financial statements of extra-budgetary entities. The current budget classification presents proposed spending on capital and recurrent maintenance and actual execution can be found in the final accounts. However, because a large share of maintenance is done by local governments and through entities like the SRA and the RDF, consolidating the full value of routine and capital maintenance in the country requires accessing the financial statements of these funds.

59. The PIM framework requires that the estimated maintenance cost is included in the project appraisal documents. There are specific fields for maintenance fields in the standardized forms that have to be submitted to MoF alongside project proposals. Initiatives that

[14] The National Agency for Energy Regulation is responsible for setting the tariff policy in various sectors within energy and in water and sewage.

present this type of information will receive higher rankings during the prioritization process. Resources needed for future operation and maintenance of assets is requested in the standardized forms that have to be submitted to MoF when developing a project proposal. Furthermore, projects that present this type of information will be ranked higher during the selection process for new capital investments. However, the information is provided for very few projects before approval.

10. Project selection (Design—Medium; Effectiveness—Low)

60. Project selection is not systematic across all new initiatives requesting budget funding. As previously mentioned, the framework for managing public investments excludes certain projects depending on the source of funding and the implementing agency. Most capital initiatives in the 2018 budget and in the CBTM for 2020 – 2022 are not required to follow the procedures defined in MoF Order 185-2015, given the strong reliance on external funding for capital investments.

61. Project selection for domestic-funded projects relies mostly on the available fiscal space. During MTBF preparation, each agency must submit to the MoF a baseline reflecting its ongoing programs and the new initiatives it plans to include. The available fiscal space, the difference between the ceiling in the MTBF and the resources needed by ongoing initiatives, will be distributed between new initiatives. However, the criteria to select which new initiatives will receive funding are not clear nor published beforehand. Box 4.3 presents some components for project selection included in the existing regulation that would complement the current practice.

62. The selection process precedes project appraisal for many donor-funded projects. Given the limited capacity for government staff to fully appraise a project, donors undertake feasibility analysis of projects only after the loan is signed. However, it is difficult for donors and the government to cancel a project if the feasibility studies are negative: donors would be writing-off resources spent in the studies and the government would risk losing funding. Resources are earmarked and cannot be easily redirected to other unfunded initiatives, which lead to project adjustments that could end up changing the scope of the project significantly.

63. There is no centralized database of projects (partially or fully appraised) from which the MoF can select projects for inclusion in the budget. Approved initiatives are submitted electronically and stored in an information system to keep track of the budget execution. But this process does not apply for projects that were not approved. Some line ministries and SOEs have a list of initiatives that they plan to implement that are included in their strategic documents. These do not constitute a pipeline because they do not follow standardized criteria but could be a starting point to build one.

64. The quality of PIM would benefit greatly from implementing the selection process described in MoF Order 185-2015. Due to its complexity, a phased approach could be designed to adopt some of the steps in the selection process. Priority could be given to the steps that are easier to assimilate by staff and that increase the transparency of the process.

Box 4.3. Capital Investment Projects Selection Process

If it were fully implemented, the framework set out in MoF Order 185-2015 would provide a transparent and objective process for selecting projects. Some important characteristics of this process are:

- Increased project scrutiny. Projects undergo various rounds of revisions at the sponsoring entity, the responsible line ministry and the MoF before submission to the IWG for approval.
- Standardized criteria. Criteria has been defined to objectively assess projects on multiple aspects. The assessment will determine the level of preparedness of each project's documentation or its alignment to national and sectoral strategies.
- Project evaluation. Qualitative and quantitative characteristics are evaluated, the result of which is a numeric value to enable project comparison.
- Project ranking. Based on the evaluation results project are ranked to determine which can be covered under the MTBF ceilings.
- Multidisciplinary evaluation group. An investment group comprised from representatives from different sectors of government would make the final decisions on which initiatives should be included in the budget to be presented to Parliament.
- Investment protection. Priority is given to the completion of ongoing projects over new initiatives.
- Building a project pipeline. Projects submitted to MoF for review of the IWG shall be entered into a database, even if these are not financed in the approved budget.

Source: Ministry of Finance Order 185 of the Ministry of Finance and Government Decision 1029.

Recommendations

Issue 5: The inaccurate baseline of projects included in basket financing programs is undermining the credibility of the MTBF and annual budget.

Recommendation 5: Ensure the transparency in baseline of projects included in basket financing programs by:

- Presenting in the CBTM and annual budget the breakdown of budgets and outturns of individual projects included in the PSPSD and other financing programs.

Issue 6: Project selection is not following a standardized process or criteria across all sectors, independent of funding sources.

Recommendation 6: Develop a phased approach to implement the selection process defined in the Order 185.

- Identify the key stages of the selection process that could be implemented in the short, medium and long-term.

- Begin developing a project pipeline based on the ideas and initiatives that sectors have in the different strategic plans.

E. Investment Implementation

11. Procurement (Design— Medium; Effectiveness—Low)

65. The country's procurement framework was strengthened through the Law 131-2015 on Public Procurement (PPL), but there are some gaps that need to be filled. The law, which covers the procurement of goods, works and services, incorporates good practices such as equal rights and non-discrimination, competition, transparency and openness. However, the PPL does not cover the areas of defense and utilities and the legal framework governing concessions and PPPs requires revision.

66. There are inconsistencies in the secondary legislation that complicate the implementation of this framework. Necessary tools, such as regulations referred to in the PPL, standard bidding documents, standard forms of contracts, manuals and guidance notes are not aligned to the PPL. These inconsistencies, for example in the thresholds defined in the PPL and in the secondary legislation, create confusion among public entities giving room for interpretation and inconsistent application of the law. Changes to address this situation might create further inconsistencies with the existing e-procurement system which would require adjustments.

67. Transparency in public procurement has been enhanced through various mechanisms. The Public Procurement Bulletin published in the official website of the Public Property Agency (PPA) provides information on procurement processes and a list of public procurement contracts are published on the website "date.gov.md". Moreover, every public procurement decision is openly published in real time. A web-based e-procurement system is in place and offers online access to public procurement tenders. However, there continue to be large number of negotiation procedures without advertisement and cancelled tenders.

68. The e-procurement system requires further adjustments. A new digital service platform – MTender – was designed with EBRD's assistance to support public procurement from planning to payment stages. However, several issues have been flagged both by the PPA and various CAs in relation to MTender such as: (i) the Government's limited ownership of the system; (ii) the security of the platform; (iii) lack of confidentiality of the process; and (iv) the system not being fully aligned to the country's public procurement legislation.

69. An independent procurement appeal process with defined timelines is in place, but it faces some weaknesses. The National Complaints Settlement Agency (NCSA), under Parliament an autonomous entity, is obliged to solve complaints within 20 working days from the date received, which can be extended by 10 working days. Even with the extension, this might not be enough for complex procurement processes. The NCSA can request the cancellation of a process, but there is no mechanism in place to ensure that the CA does so, nor provisions to apply sanctions if a CA ignores NCSA's decision. The NCSA can inform on its website of the CA's noncompliance and to the relevant control bodies, but there's no follow up assurance.

70. **Number of complaints is relatively high, and their quality remains an issue.** A total of 726 complaints were received by the NCSA in 2018, challenging public procurement tenders with the total estimated cost of MDL 2.5 billion. The mostly challenged procedures are those for construction works (204 complaints) and medical equipment (113 complaints). The quality of complaints and their timely submission remain a major issue. Out of 596 decisions taken by NCSA, 315 complaints had to be rejected as being groundless, non-compliant or late.

71. **A more detailed assessment of the procurement framework should inform the government of the reforms needed to further strengthen public procurement.** The mission was also informed that there is insufficient monitoring of compliance of procuring entities with legal requirements and these breaches are not subject to sanctions. Procurement in Moldova is also affected by limited competition for public investment contracts, cancelled tenders, and a difficulty to plan for multi-annual contracts due to the annual budget process (Box 4.4).

Box 4.4. Moldova Public Procurement Assessment using Methodology for Assessing Procurement Systems (MAPS-2)

At the request of the Government, the World Bank launched the Moldova MAPS-2 Project to identify strengths and weaknesses, and any gaps that negatively impact the quality and performance of the public procurement; help the Government to prioritize public procurement reform; and suggest recommendations to enhance the public procurement system. The assessment report will be finalized by June 2020.

Appendix III provides additional information on the procurement process in Moldova.

12. Availability of Funding (Design—High; Effectiveness—Medium)

72. **Since 2016 the formal framework for financing capital spending has been predictable and payments have generally been timely.** MoF prepares annual, quarterly and monthly cash flow forecasts that are reconciled with major spending agencies. There are no commitment limits, but agencies submit monthly spending requests. Cash rationing is regulated by paragraph 69 of the LPFFR. Any cash rationing is a short-term measure, and expenditure sequestration must be authorized through budget amendment within 2 months. Externally financed project funds are in separate accounts within the central bank, managed by the treasury, but externally financed projects may have accounts in commercial banks, also controlled by the Treasury.

73. **Although there is no systematic cash rationing, cash releases are prioritized during the month and the MoF did establish an ad hoc moratorium on certain commitments in 2019.** Major spending agencies plan their annual cash flow in collaboration with the MoF and smaller agencies generally get the cash to cover authorized expenditures. Paragraph 67 of the LPFFR establishes a clear priority among budget payments. The MoF generally plans priority

payments, including salaries, pension and external debt, during the first half of each month, and non-priority payments, which include procurement of goods and capital spending, during the second half of the month. If payment orders for capital are submitted early in the month there may be some weeks before they are paid, but all payments are processed by the end of the month. Two smaller, externally funded projects still retain project accounts in commercial banks. According to the MoF, the amounts in these accounts are negligible compared to the treasury single account balances at the end of 2018. The 2019 moratorium on contract registration is an exception to the otherwise predictable arrangements for budget commitments (Box 4.5).

Box 4.5. Moratorium on Non-essential Expenditures in February 2019

In February 2019, pre-election spending decisions had created significant uncertainty about the realism of the approved fiscal deficit for 2019. The Minister of Finance decided that the Treasury should temporarily refrain from registering contracts for spending that was not strictly needed for the on-going operations of ministries and agencies. According to law, government commitments are only created when a contract is registered with the Treasury. This measure served as an ad hoc commitment control on non-essential government expenditures, including discretionary capital spending.

The measure was in force until the new government took office in July 2019. The MoF then asked the new ministers to assess the contracts that had not been registered during February – July and ascertain if these still were priorities. Some contracts have now been resubmitted to the Treasury and registered, whereas others have been cancelled by the line ministries.

Source: MoF staff

13. Portfolio Management and Oversight (Design – Medium; Effectiveness - Medium)

74. MoF Order 185-2015 provides a comprehensive regulatory framework for oversight of the budget-funded public investment portfolio, but externally financed projects are not covered by these provisions. This Order sets out detailed rules for implementation, monitoring and reporting on capital projects. Reports should include progress against pre-determined performance indicators, implementation challenges and solutions to these, in addition to standard financial reporting. On the basis of these reports, MoF is to provide a comprehensive portfolio analysis, including of systemic implementation challenges. MoF Order 185-2015 also stipulates that there should be ex post reviews of capital projects, that these reports should be summarized, analyzed and submitted to the IWG for consideration.

75. Many of the provisions in MoF Order 185-2015 have not been operationalized and in practice project oversight arrangements are quite limited. Monitoring of budget-funded capital projects focuses on financial execution and there is no systematic tracking or reporting on physical implementation, performance against specific indicators or identification of implementation challenges. Report submission to the MoF is only required on an annual basis for budget-funded projects. Neither are there any examples of ex post reviews of budget-funded capital projects or any systematic analysis of portfolio performance or implementation issues. The IWG has not yet been convened and is not operational. Externally financed capital projects may have more extensive monitoring and ex-post evaluation arrangements, depending on the requirements of the specific financial institution. The practice of lump-sum allocations for road projects and the implementation of capital projects through extrabudgetary funds undermines the transparency of capital fund reallocations and there is no consolidated overview of such reallocations in budget documents.

76. Reallocation of funds between projects during implementation is governed by regular budget rules. Most central government capital projects have separate budget lines and reallocation among these will require budget amendments. However, road projects are funded through large, lump-sum appropriations, leaving considerable scope for reallocation between different road projects. Investments implemented by extrabudgetary funds and SOEs, including the Regional Development Fund and the Environmental Fund, also have lump-sum allocations from the budget, giving the agencies substantial discretion in reallocation of funds among projects. Government Decision 1029-2013 stipulates that projects that are more than 15 % over estimated total cost or delayed by more than one year, should be reassessed by the responsible ministry, the MoF and the IWG.

77. Effective implementation of MoF Order 185-2015 for all capital investment projects should be a high priority. As discussed under several institutions, this order contains very useful provisions for effective management of capital investments. The main provisions should be applied to all capital investment projects, regardless of financing source or implementing agency, but it might be necessary to differentiate some of the detailed provisions.

14. Management of Project Implementation (Design – Medium; Effectiveness – Medium)

78. Project management procedures for capital investment projects, funded by the national budget and external partners, are in place. The MoEI has established sectoral project implementation units (PIU), who are performing overall project management function for major investment projects. MoF Order 185-2015 on public capital investments describes the project management functions of the PIUs for budget-funded projects. This order also describes the requirement for implementation plans to be developed before the approval of the project and sets criteria for adjustments. In practice, implementation plans are not often available before project approval. Externally funded projects are being managed per the requirements set in loan/project agreements, implementation plans are part of loan agreement and adjustments are done as per the requirements of IFIs.

79. The rules on project adjustments exist but are applied only to the limited scope of major projects. Government Decision 1029-2013 requires reappraisal of a project if the implementation is delayed for more than one year or the cost is increased by more than 15 percent of the original estimate. However, this rule does not apply to externally financed projects, which comprise a large part of major projects. Significant adjustments have been made to some externally financed projects without a re-appraisal being required. For example, the

Vulcanesti-Chisinau transmission line project, which is funded by external sources, was originally costed at EUR 140 million when it was included in the 2015 Roadmap for the Electricity Sector. However, since then, the project was adjusted by rising the voltage from 330kV to 400kV and changing the design from single to double lines. This almost doubled the total costs to EUR 270 million when the loan agreement was signed in 2017. This adjustment was discussed with the MoF, but no re-appraisal or re-selection was undertaken for this project as required by the Government Decision.

80. The Court of Accounts (CoA) performs audit of selective capital investment projects on a yearly basis. The CoA prepares an annual work plan in consultation with different stakeholders, based on requirements of a new law promulgated in 2017, which is approved by the Board. Capital investment projects are not specifically included in the work plan, but if an entity being audited by the CoA is responsible for implementation of a project, then the project is covered as part of the entity's audit and the CoA can discuss the project in the report. CoA also undertakes audits of selected externally funded projects. Examples include audits of the PSPSD (2011), the Energy Project II (2011), and the program for water supply and sewerage (2016). These reports are submitted to a parliamentary committee for discussion and corrective actions are being published.

81. The CoA should consider conducting audit of major external funded projects more systemically. According to the requirements set in the loan agreement yearly financial audits of externally financed projects are being done by the private auditors and the auditors reports are publicly available. The scope of such audits is generally limited and provides opinion on conditions set in the financing agreement. Considering this limitation, CoA should perform financial and performance audit of major externally financed projects, at least after completion of projects, to promote transparency by reporting on outcomes of the projects and also promote the use of the country's systems by the donors.

82. Deployment of an Information Technology (IT) application for project monitoring and reporting shall help in reducing project implementation delays. MoF may consider development of an IT-based application, in collaboration with stakeholders, for efficient and effective project monitoring and reporting. Development of such systems should result in active monitoring of the projects performance and support timely decisions for corrective actions to avoid projects delays.

15. Monitoring of Public Assets (Design – Medium; Effectiveness – Medium)

83. The value of public assets is not being effectively monitored due to the absence of complete asset registers. The PPA is responsible for the administration of public assets owned by ministries, agencies, SOEs and Joint stock companies. Government Decision 675-2008 requires these entities to submit updated records of assets and financial statements to the PPA annually by April 15, based on which the PPA updates the register. Although the agency has guidelines in place for periodical updating of the non-financial assets register, it is not complete due to multiple fragmented and incomplete sub-registers being maintained, either manually or through multiple IT software, at different entities. For example, the sub-register of state-owned real estate contains information on land managed by central public authorities, public institutions and state-owned enterprises but significant information about the state land is missing. The register captures SOEs' assets only as financial assets (i.e. government shareholding) measured by net assets of SOEs. Therefore, it fails to capture roads and water systems, which are legally owned by the SRA and municipal water companies. The value of fixed assets recorded in the central government register (MDL 23 billion, 12 percent of GDP in 2018) appears to be only a part of the total public capital stock.

84. Financial statements of general government are not reflecting the accurate value of non-financial assets. Budget execution reports include central government balance sheet that includes fixed assets (MDL 22 billion in 2018). The national accounts also present the stock of fixed assets of general government, which are revalued with a time-lag (MDL 23 billion in 2014). Depreciation is made to the value recorded in the register, but is not included in National Accounts, which is prepared on a cash-basis and does not includes an accrual statement of operations. Although nonfinancial assets are being reflected in the financial statements and depreciation is being recorded, the value is insignificant due to absence of complete nonfinancial asset register and revaluation policy of non-financial assets. The financial statements of SOEs and joint stock companies are not being consolidated into the general government financial statements. This is due to application of National Public Sector Accounting Standards in general government while SOEs/JSCs prepare financial statements based on International Financial Reporting Standards and guidelines for adjustments required to consolidate financial statements, produced under different accounting principles, are not available.

85. The PPA is progressing towards development of a comprehensive and reliable asset register. An important step in this direction is that by the end of 2020, PPA is planning to procure an IT system with functionality to provide remote access to entities for updating their assets related information. This will reduce inconsistencies and allow PPA to perform electronic consolidation of data to develop an asset register. PPA's objective is also to update the records of state-owned land by the end of 2023. PPA is receiving technical assistance for development of guidelines for the consolidation of financial statements produced under different accounting principles. The consolidation will provide a more accurate statement of overall public assets and improve decision making on future public investment.

Recommendations

Issue 7: The government has identified various weaknesses in the procurement process that they need support to determine how to address.

Recommendation 7: Complete the ongoing MAPS Assessment with the World Bank that will help identify the key reforms required to improve procurement practices in Moldova.

Issue 8: Reporting and monitoring framework is not being implemented because it covers a fraction of public investments and does not differentiate between the complexity of the projects.

Recommendation 8: Develop the comprehensive framework for financial and physical reporting and monitoring that covers all major projects regardless of their financing sources.

- Stock take the reporting practices of the Road Fund, RDF and EcoFund and Good Roads Moldova.
- Based on this information design reporting templates to be submitted quarterly to MoF.
- Roll-out the reporting templates to the major local projects financed from the state budget.

IV. CROSS CUTTING ISSUES

A. Legal Framework

86. The legal framework for PIM in Moldova is well structured within a small number of documents. Other countries that follow similar legal traditions tend to have either very few or numerous documents to prescribe the process for PIM (Table 5.1). For example, Armenia has no regulation on project appraisal, selection, or implementation, except for one MoF order requiring reporting of project progress. In Ukraine, there are four different PPP Laws and two laws on sectoral planning. Several Cabinet resolutions and ministerial orders are issued under these laws. In contrast, the legal framework in Moldova is concise and well drafted. The appraisal, selection, and implementation of "capital investment" is prescribed in three documents (LPFFR, Government Decision 1029-2013, MoF Order 185-2015). The PPP legal framework has been also harmonized into the single PPP Law by abolishing the old Concession Law. There has been an idea to create the "Public Investment Law", separately from the LPFFR. However, an option would be to keep the existing structure of the legal framework and amend the existing documents, rather than add new ones.

Table 5.1. Moldova: Number of Laws and Regulations for Public Investment Management

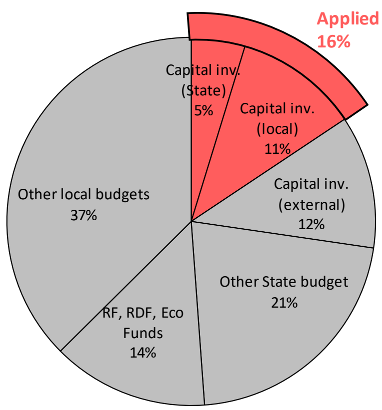
	Public Investment			PPPs		
	Moldova	Armenia	Ukraine	Moldova	Armenia	Ukraine
Law	**1**	0	3	**1**	0	4
Government Decision	**1**	0	4	**3**	0	5
MoF Order	**1**	1	2	**2**	0	2

Source: Armenia PIMA Report, staff estimates based on government legal databases

87. The key weakness in Moldova's legal framework is its narrow scope of application. The PIM process prescribed under the Government Decision 1029-2013 and MoF Order 185-2015 applies only to "capital investments" projects and does not apply to other projects of State and local budgets or projects of funds such as the Road Fund, RDF, and Ecological Fund. Furthermore, externally financed projects, which comprise a large part of "capital investment" projects, are excluded from the requirements (see Article 44(1) of the LPFFR). Although as discussed in other part of this report the Government Decision and MoF Order sets out project appraisal, selection, and implementation processes closely aligned with international good practices, it is applicable only to 16 percent of total public investments in 2018 (Figure 5.1). In the 2019 budget, a majority of "capital investment" projects that are not financed from external sources were small rehabilitation of government or school buildings, with total costs less than MDL 50 million (Figure 5.2). The smallest project has only MDL 1 million of total costs. Applying the full-fledged PIM process to these micro projects would be cumbersome and add little value. The LPFFR needs to be amended to apply the PIM regulation to all major projects, regardless of their financing sources.

Figure 5.1. Portion of Public Investment Subject to Gov't Decision 1029

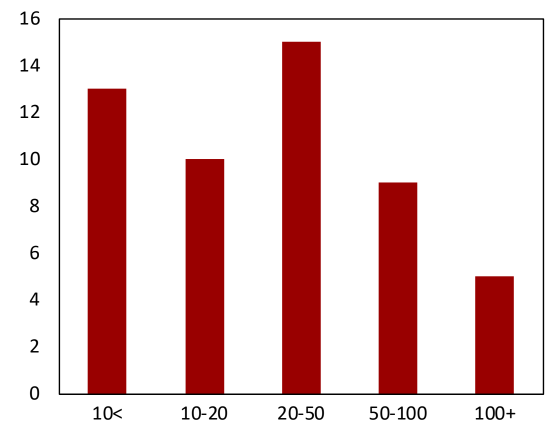
(MDL million)



Source: Staff estimates based on official data

Figure 5.2. Histogram of "Capital Investment" Projects Not Externally Financed by Total Costs, 2019

(Number of projects, x-axis: MDL million)



Source: Staff estimates based on official data

B. IT Support

88. Integration of Information technology (IT) systems needs to be strengthened to support better PIM. Multiple IT systems and web-based platforms are being used for different tasks listed in Table 4.5. All of these different IT applications are serving different specialized needs but results in the fragmentation of information relating to public investment projects.

Table 5.2. Moldova: IT Systems Supporting PIM

No.	IT Application	Usage
1	M Tenders	Management of key procurement function
2	1-C	Financial management and accounting
3	Ms. Excel	Multiple reporting functions
4	AMP.GOV.MD	For grant management
5	RPIC.GOV.MD	Reporting on invest projects to MoF

Source: Staff based on conversations with authorities

89. A long-term, consolidated IT strategy needs to be developed to strengthen PIM. As mentioned above, multiple systems are being used to serve specialized needs and multiple IT teams are deployed in different entities. There is a critical need to take stock of all the IT applications being used in the government and devise a longer-term strategy to integrate multiple applications for efficient public invest management. This effort would serve for the effective project and portfolio management, including through development of a dashboard relating to public investment projects. It is important to engage all stakeholders in the development of such a strategy. The IT strategy and systems should be harmonized with the regulations issued for the PIM and facilitate the implantation of such regulations.

C. Staff Capacity

90. It is critical to develop staff capacity to achieve the potential benefits of PIM. Government has developed very useful regulations for the implementation of capital investment projects but due to capacity constraints, implementation of those procedures is still in process. There are a few critical areas that require immediate attention from government. Project appraisal, estimation of maintenance needs, procurement and project/portfolio management are areas where the government should develop concrete plans to develop staff capacity. Appendix IV provides some guidance on development of long-term capacity building plan.

91. Strong coordination between government and donors may improve the staff capacity. It is important for government to identify the priority areas for staff capacity development and develop a long-term plan. As many donors are consistently arranging training activities to develop the staff capacity of partner government, it would be useful to engage actively with donors and seek their support. Government can deepen staff engagement with donors during all phases of project management i.e. planning, implementation and evaluations.

Recommendations for Cross-cutting issues

Issue 9: The scope of application of Moldova's legal framework is very narrow and does not provide real support to PIM as it can only be applied to minor projects that focus rehabilitation works.

Recommendation 9: Amend existing regulation to increase the scope of application of the capital investment management framework to ensure that it covers a larger share of projects, with particular focus on major projects.

- Amend the LPFFR and the MoF Order 185-2015 to ensure that the PIM regulation applies to all major projects, regardless of their financing sources.

- Undertake a revision of the portfolio of capital investment projects in Moldova to set new thresholds to ensure that full appraisal is focused on large key projects and not minor repairs.

Appendix I. Moldova: Proposed Action Plan

Action	2020	2021	2022	Responsible agency	Institution
Ensure that the new strategic planning framework provides clear prioritization and clear linkages between strategies, plans and key investment projects.					
Identify major public investments in strategic documents	Identify the major, long-term investment projects in a separate section or an appendix to Moldova 2030			State Chancellery	2
Determine the resource availability for public investments for the Moldova 2030 plan	Provide indicate resource envelope for public investments over the 2020 – 2030 period, including all possible financing sources			MoF, MoEI	2
	Provide indicative allocation of resources to main sectors			MoF	2
Plan major investment projects within the indicative sector allocations		Provide initial cost estimates and targets for major investment projects during 2020 - 2030		MoEI, other ministries	2
			Ensure that these priority investment projects are fully reflected in sectoral strategies and development plans.	State Chancellery, MoEI, other ministries	2

Action	2020	2021	2022	Responsible agency	Institution
Improve budget practices to increase transparency and accountability					
Strengthen the MTBF process	Include more authoritative capital spending limits and transparent explanations of changes during MTBF revisions	Present in the CBTM and annual budget the breakdown of budgets and outturns to individual projects included in “basket” programs.		MoF	6
Integrate all projects into the budget process	Requiring all projects financed from the State budget to follow the same process for budget proposals and reporting	Including in the State budget document annexes that list all projects financed from the State budget		MoF, SRA, Ministry of Agriculture	3, 6, 7
Develop a comprehensive reporting framework.	Stock take the reporting practices of the Road Fund, RDF and EcoFund and Good Roads Moldova.	Based on this information design reporting templates to be submitted quarterly to MoF.	Roll-out the reporting templates to the major local projects financed from the state budget.	MoF, SRA, Ministry of Agriculture	13

Action	2020	2021	2022	Responsible agency	Institution
Strengthen competition and promote development of infrastructure markets by developing a comprehensive action plan for improvements in private sector provision of infrastructure services and in the markets for construction services.					
Ensure regulated tariffs cover maintenance and investment needs	Ensure the independence of regulatory bodies and allowing tariffs that reflect the need for systematic asset maintenance and capital replacement			Competition Council, Regulatory agencies,	5
Strengthen private sector participation in infrastructure markets		Increase market access for domestic and international competitors, including through improved procurement mechanisms and practices		Competition Council, MoEI, Procurement Agency	5, 11
	Review the role of SOEs in possible market distortions	Take steps to eliminate such distortions during the ongoing streamlining of the whole SOE sector, including by eliminating SOE market privileges and restructuring, privatizing or closing down SOEs that undermine effective competition in infrastructure markets		Public Property Agency, Donor agencies	5

Action	2020	2021	2022	Responsible agency	Institution
Enahnce the capital investment management framework to ensure that covers all projects.					
Strengthen legal framework	Amend the LPFFR to allow regulation on public investment management to be applied to all major projects, regardless of their financing sources.		Amend capital PIM regulation to reflect that all projects have to follow the same preparation and approval process.	MoF	Cross Cutting - Legal Framework
Develop a phased approach to implement the process defined in the Order 185 - identify the key stages of the PIM process that could be implemented in the short, medium and long-term.	Undertake a revision of the portfolio of capital expenditure projects in Moldova to define new thresholds to determine the appraisal and selection requirements that a project must follow. This will ensure consistency between a project's complexity and the scrutiny it is subject to.	Determine the appraisal, monitoring and reporting procedures that all projects must follow for the 2022 budget, based on the thresholds.	Ensure the standards of project costing and selection are applied to all projects, regardless of financing source, implementing agency, level of governments.	MoF	3, 4, 6 Cross Cutting – Legal Framework
	Develop a training strategy to increase the capacity of line ministries to prepare projects up to this minimum level.	Launch the training program for central government	Roll-out training program to local governments	MoF, Ministry of Education	4 Cross Cutting – Staff Capacity
Develop a project pipeline to inform the annual budget process.	Consolidate all projects in the budget.	Add all projects proposed for next budget cycle to be funded through the state budget, including those that are rejected.		MoF	10

Appendix II. PIMA Questionnaire

A. Planning Sustainable Levels of Public Investment				
1. Fiscal targets and rules: Does the government have fiscal institutions to support fiscal sustainability and to facilitate medium-term planning for public investment?				
1.a.	Is there a target or limit for government to ensure debt sustainability?	There is no target or limit to ensure debt sustainability.	There is at least one target or limit to ensure central government debt sustainability.	There is at least one target or limit to ensure general government debt sustainability.
1.b.	Is fiscal policy guided by one or more permanent fiscal rules?	There are no permanent fiscal rules.	There is at least one permanent fiscal rule applicable to central government.	There is at least one permanent fiscal rule applicable to central government, and at least one comparable rule applicable to a major additional component of general government, such as subnational government (SNG).
1.c.	Is there a medium-term fiscal framework (MTFF) to align budget preparation with fiscal policy?	There is no MTFF prepared prior to budget preparation.	There is an MTFF prepared prior to budget preparation but it is limited to fiscal aggregates, such as expenditure, revenue, the deficit, or total borrowing.	There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending, and ongoing and new projects.
2. National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?				
2.a.	Does the government prepare national and sectoral strategies for public investment?	National or sectoral public investment strategies or plans are prepared, covering only some projects found in the budget.	National or sectoral public investment strategies or plans are published covering projects funded through the budget.	Both national and sectoral public investment strategies or plans are published and cover all projects funded through the budget regardless of financing source (e.g., donor, public corporation (PC), or PPP financing).
2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment.	The government's investment strategies include broad estimates of aggregate and sectoral investment plans.	The government's investment strategies include costing of individual, major investment projects within an overall financial constraint.

2.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes.	Sector strategies include measurable targets for outputs (e.g., miles of roads constructed).	Sector strategies include measurable targets for both outputs and outcomes (e.g., reduction in traffic congestion).
3.	**Coordination between Entities: Is there effective coordination of the investment plans of central and other government entities?**			
3.a.	Is capital spending by SNGs, coordinated with the central government?	Capital spending plans of SNGs are not submitted to, nor discussed with central government.	Major SNG capital spending plans are published alongside central government investments, but there are no formal discussions, between the central government and SNGs on investment priorities.	Major SNG capital spending plans are published alongside central government investments, and there are formal discussions between central government and SNGs on investment priorities.
3.b.	Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	The central government does not have a transparent rule-based system for making capital transfers to SNGs.	The central government uses a transparent rule-based system for making capital transfers to SNGs, but SNGs are notified about expected transfers less than six months before the start of each fiscal year.	The central government uses a transparent rule-based system for making capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year.
3.c.	Are contingent liabilities arising from capital projects of SNGs, PCs, and PPPs reported to the central government?	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are not reported to the central government.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, but are generally not presented in the central government's budget documents.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, and are presented in full in the central government's budget documents.
4.	**Project Appraisal: Are project proposals subject to systematic project appraisal?**			
4.a.	Are major capital projects subject to rigorous technical, economic, and financial analysis?	Major capital projects are not systematically subject to rigorous, technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis, and selected results of this analysis are published or undergo independent external review.
4.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no standard methodology or central support for project appraisal.	There is either a standard methodology or central support for project appraisal.	There is both a standard methodology and central support for project appraisal.

4.c.	Are risks taken into account in conducting project appraisals?	Risks are not systematically assessed as part of the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal, and plans are prepared to mitigate these risks.
5.	**Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?**			
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.
5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.
B.	**Ensuring Public Investment is Allocated to the Right Sectors and Projects**			
6.	**Multiyear Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?**			
6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year.	Projections of total capital spending are published over a three to five-year horizon.	Projections of capital spending disaggregated by ministry or sector are published over a three to five-year horizon.
6.b.	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.

6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three-five-year horizon.
7. Budget Comprehensiveness and Unity: To what extent is capital spending, and related recurrent spending, undertaken through the budget process?				
7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extra-budgetary entities with no legislative authorization or disclosure in the budget documentation.	Significant capital spending is undertaken by extra-budgetary entities, but with legislative authorization and disclosure in the budget documentation.	Little or no capital spending is undertaken by extra-budgetary entities.
7.b.	Are all capital projects, regardless of financing source, shown in the budget documentation?	Capital projects are not comprehensively presented in the budget documentation, including PPPs, externally financed, and PCs' projects.	Most capital projects are included in the budget documentation, but either PPPs, externally financed, or PCs' projects are not shown.	All capital projects, regardless of financing sources, are included in the budget documentation.
7.c.	Are capital and recurrent budgets prepared and presented together in the budget?	Capital and recurrent budgets are prepared by separate ministries, and/or presented in separate budget documents.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, but without using a program or functional classification.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, using a program or functional classification.
8. Budgeting for Investment: Are investment projects protected during budget implementation?				
8.a.	Are total project outlays appropriated by the legislature at the time of a project's commencement?	Outlays are appropriated on an annual basis, but information on total project costs is not included in the budget documentation.	Outlays are appropriated on an annual basis, and information on total project costs is included in the budget documentation.	Outlays are appropriated on an annual basis and information on total project costs, and multiyear commitments is included in the budget documentation.
8.b.	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending.	The finance ministry may approve virement from capital to current spending.	Virement from capital to current spending requires the approval of the legislature.

8.c.	Is the completion of ongoing projects given priority over starting new projects?	There is no mechanism in place to protect funding of ongoing projects.	There is a mechanism to protect funding for ongoing projects in the annual budget.	There is a mechanism to protect funding for ongoing projects in the annual budget and over the medium term.
9. Maintenance Funding: Are routine maintenance and major improvements receiving adequate funding?				
9.a.	Is there a standard methodology for estimating routine maintenance needs and budget funding?	There is no standard methodology for determining the needs for routine maintenance.	There is a standard methodology for determining the needs for routine maintenance and its cost.	There is a standard methodology for determining the needs for routine maintenance and its cost, and the appropriate amounts are generally allocated in the budget.
9.b.	Is there a standard methodology for determining major improvements (e.g. renovations, reconstructions, enlargements) to existing assets and are they included in national and sectoral investment plans?	There is no standard methodology for determining major improvements, and they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, but they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, and they are included in national or sectoral plans.
9.c.	Can expenditures relating to routine maintenance and major improvements be identified in the budget?	Routine maintenance and major improvements are not systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget, and are reported.
10. Project Selection: Are there institutions and procedures in place to guide project selection?				
10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Major projects (including donor- or PPP-funded) are not reviewed by a central ministry prior to inclusion in the budget.	Major projects (including donor- or PPP-funded) are reviewed by a central ministry prior to inclusion in the budget.	All major projects (including donor- or PPP-funded) are scrutinized by a central ministry, with input from an independent agency or experts prior to inclusion in the budget.
10.b.	Does the government publish and adhere to standard criteria, and stipulate a required process for project selection?	There are no published criteria or a required process for project selection.	There are published criteria for project selection, but projects can be selected without going through the required process.	There are published criteria for project selection, and generally projects are selected through the required process.
10.c.	Does the government maintain a pipeline of appraised investment projects for inclusion in the annual budget?	The government does not maintain a pipeline of appraised investment projects.	The government maintains a pipeline of appraised investment projects but other projects may be selected for financing through the annual budget.	The government maintains a comprehensive pipeline of appraised investment projects, which is used for selecting projects for inclusion in the annual budget, and over the medium term.

C.	**Delivering Productive and Durable Public Assets**			
11. Procurement				
11.a.	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process, and the public has limited access to procurement information.	Many major projects are tendered in a competitive process, but the public has only limited access to procurement information.	Most major projects are tendered in a competitive process, and the public has access to complete, reliable and timely procurement information.
11.b.	Is there a system in place to ensure that procurement is monitored adequately?	There is no procurement database, or the information is incomplete or not timely for most phases of the procurement process.	There is a procurement database with reasonably complete information, but no standard analytical reports are produced from the database.	There is a procurement database with reasonably complete information, and standard analytical reports are produced to support a formal monitoring system.
11.c.	Are procurement complaints review process conducted in a fair and timely manner?	Procurement complaints are not reviewed by an independent body.	Procurement complaints are reviewed by an independent body, but the recommendations of this body are not produced on a timely basis, nor published, nor rigorously enforced.	Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced.
12. Availability of Funding: Is financing for capital spending made available in a timely manner?				
12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash-flow forecasts?	Cash-flow forecasts are not prepared or updated regularly, and ministries/agencies are not provided with commitment ceilings in a timely manner.	Cash-flow forecasts are prepared or updated quarterly, and ministries/agencies are provided with commitment ceilings at least a quarter in advance.	Cash-flow forecasts are prepared or updated monthly, and ministries/agencies are provided with commitment ceilings for the full fiscal year.
12.b.	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing.	Cash for project outlays is sometimes released with delays.	Cash for project outlays is normally released in a timely manner, based on the appropriation.
12.c.	Is external (donor) funding of capital projects fully integrated into the main government bank account structure?	External financing is largely held in commercial bank accounts outside the central bank.	External financing is held at the central bank, but is not part of the main government bank account structure.	External financing is fully integrated into the main government bank account structure.

13. Portfolio Management and Oversight: Is adequate oversight exercised over implementation of the entire public investment portfolio				
13.a.	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation.	For most major projects, annual project costs, as well as physical progress, are monitored during project implementation.	For all major projects, total project costs, as well as physical progress, are centrally monitored during project implementation.
13.b.	Can funds be re-allocated between investment projects during implementation?	Funds cannot be re-allocated between projects during implementation.	Funds can be reallocated between projects during implementation, but not using systematic monitoring and transparent procedures.	Funds can be re-allocated between projects during implementation, using systematic monitoring and transparent procedures.
13.c.	Does the government adjust project implementation policies and procedures by systematically conducting ex-post reviews of projects that have completed their construction phase?	Ex-post reviews of major projects are neither systematically required, nor frequently conducted.	Ex-post reviews of major projects, focusing on project costs, deliverables and outputs, are sometimes conducted.	Ex-post reviews of major projects focusing on project costs, deliverables, and outputs are conducted regularly by an independent entity or experts, and are used to adjust project implementation policies and procedures.
14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?				
14.a.	Do ministries/agencies have effective project management arrangements in place?	Ministries/agencies do not systematically identify senior responsible officers for major investment projects, and implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, but implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval.
14.b.	Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	There are no standardized rules and procedures for project adjustments.	For major projects, there are standardized rules and procedures for project adjustments, but do not include, if required, a fundamental review and reappraisal of a project's rationale, costs, and expected outputs.	For all projects, there are standardized rules and procedures for project adjustments and, if required, include a fundamental review of the project's rationale, costs, and expected outputs.

14.c.	Are ex-post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex-post external audits.	Some major capital projects are subject to ex-post external audit, information on which is published by the external auditor.	Most major capital projects are subject to ex-post external audit information on which is regularly published and scrutinized by the legislature.
15. Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?				
15.a.	Are asset registers updated by surveys of the stocks, values, and conditions of public assets regularly?	Asset registers are neither comprehensive nor updated regularly.	Asset registers are either comprehensive or updated regularly at reasonable intervals.	Asset registers are comprehensive and updated regularly at reasonable intervals.
15.b.	Are nonfinancial asset values recorded in the government financial accounts?	Government financial accounts do not include the value of non-financial assets.	Government financial accounts include the value of some non-financial assets, which are revalued irregularly.	Government financial accounts include the value of most nonfinancial assets, which are revalued regularly.
15.c.	Is the depreciation of fixed assets captured in the government's operating statements?	The depreciation of fixed assets is not recorded in operating statements.	The depreciation of fixed assets is recorded in operating statements, based on statistical estimates.	The depreciation of fixed assets is recorded in operating expenditures, based on asset-specific assumptions.
Cross-cutting issues				
A	**IT support.** Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			
B	**Legal Framework.** Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, procedures, standards and accountability for effective PIM?			
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective PIM institutions?			

Appendix III. Public Procurement in Moldova

While progress has been made to strengthen public procurement through the Public Procurement Law,[15] bringing Moldova's legal framework closer to EU standards, there is considerable room for further improvement. The PPL is based on international good practices and has been amended several times to better align to the EU directives. The complaints review mechanism is independent. Public procurement is open and transparent with all the information made available to the general public. However, there is scope for improvement in the following areas:

The Role of the Public Procurement Agency (PPA)

The PPA, as the procurement monitoring and oversight agency, has been constrained due to lack of supporting provisions in the PPL. The development of public procurement policies function remains with the MoF to which the PPA is subordinated. The PPA, in its turn, develops and submits to the MoF proposals to modify the public procurement legislation. Prior and ex post reviews which were previously conducted by the PPA have been discontinued, leaving the agency with the function of monitoring the compliance of public procurement procedures. In practice however, this function can hardly be executed given the existing decentralized system. Contracting Authorities (CAs) have full responsibility and authority to conduct public procurement tenders with limited requirements to report to the PPA. Despite these limitations, the PPA still monitors the public tenders for large value contracts based on the information available in the e-procurement system. However, the PPA has no authority by law to interfere in a public procurement tender prior to contract award or prior to contract becoming effective or impose any actions on CAs if errors and incompliance with public procurement legislation and procedures are identified during the review. It is at the discretion of the CA to act or not on the PPA's recommendations and this may lead to an inefficient use of public funds and increase in corruption.

Staff Capacity

Procurement capacity in the country is scarce. The Moldovan public sector doesn't consider the role of a Public Procurement Officer as a profession. Moreover, it is not defined and does not exist in the official classifier/registry of public servant positions. This leads to low technical capacity of CAs where procurement is carried out by officials with positions like accountants or lawyers, who are not properly trained in procurement. Given the large number of CAs (more than 3100), the high number of officers without proper skills and knowledge is a major problem and leads to poor and inefficient public procurement planning, low-quality technical specifications and tender documents, and insufficient monitoring of the execution of public procurement

[15] Law No. 131 of July 3, 2015 which entered into effect on May 1, 2016

contracts. The country also lacks certification programs for officials involved in public procurement, or for staff of the PPA. In addition, the PPA faces a high turnover of staff due to unattractive remuneration. Efforts to establish a certification mechanism in the country have been delayed due to the limited staffing and technical capacity of the PPA.

e-Procurement

As per the provisions of the PPL, Moldova's e-procurement system SIA "RSAP" (Automated Informational System "State Registry of Public Procurement") is an online electronic system, web-based, with a dedicated address, used to conduct public procurement tenders, publish procurement notices at the national level, submit and evaluate bids/proposals, award contracts and sign contracts applying an electronic signature.

The new system, MTender, has been piloted in January 2017 and as of October 1, 2018 is mandated for use by all the CAs through a government decision. The system will be assessed with the support of the EU Delegation and possibly reformed through EU's project "Technical Assistance in Reengineering of Selected Public Services in Moldova."

Complaints Mechanism

With the adoption of the PPL, the complaints review function (previously handled by the PPA) has been attributed to the NCSA which became functional in September 2017. The Agency is fully autonomous and is not under subordination of any authority or public institution. Complaints are handled in accordance with the provisions of the PPL and internal operational procedure of NCSA. The number of complaints is high in Moldova versus peer countries and the NCSA foresees an increase in the number of complaints with the adoption of the law on utilities and concessions which is currently under development.

Appendix IV. Development and Execution of Capacity Development Strategy

Selection of Staff for Training Related to PIM

For effective implementation of the decision it is important for government to identify the different target groups who need to be train and develop for different areas of the decision like project appraisal, procurement and etc. so that the development of training for each group can be customized to fulfil their needs.

Training Needs Assessment

It is critical for government to run a gap analysis to identify discrepancies between existing skill-set of staff and the capacities required for effective implementation of the decision on PIM. The gaps need to be identified for various types of groups identified to devise a comprehensive plan. Once the gaps between the skills and experience currently available and those required to implement and operate the decision have been identified, then next step is to choose the options of different ways to develop the capacity.

Training Strategies

For implementation of decision Government needs to arrange seminars for the training and awareness of staff involved in different areas of the PIM. In addition, some other areas to explore are the recruitment of consultants and participation in donors' missions on key project management activities like project appraisal, procurement, financial management and audit. An option can be the partnership with different universities for designing courses for different levels of personnel considering their requirements a and option for developing online courses is always useful as such online courses provide an opportunity to staff for continuous learning without leaving their workplace.

Delivery of Training

Train the trainers is very useful technique, whereby a small group of staff from multiple entities can initially be trained with the responsibility to train other staff in their respective entities.
In addition to this, once the needs for different groups of staff have been identified, government need to consider training topic and content, option for further inhouse and external training, methods of delivery and timeline for training of all staff working in different areas of PIM. It is important for government to consider different options considering the cost, time constrains and ability of staff to be released from work for training.

Evaluation and Training

It is important to evaluate the impact of training and based on the evaluation, government can take corrective actions to further strengthen the training needs of the staff. An important evaluation element is to review the effectivity of decision at different stages of PIM. If the effectivity of decision has improved after training and staff become familiar about different requirements in the decision that means the training was successful otherwise some corrective actions are required either in the training course or mode of training.

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