Republic of Moldova

Public Expenditure and Financial Accountability Assessment

Public Financial Management Performance Report

April 2006

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Glossary

AGA	Autonomous Government Agency
ATU	Administrative Territorial Unit
CCCU	Combating Crime and Corruption Unit
CFAA	Country Financial Accountability Assessment
CIBMA	Compulsory Insurance Budget for Medical Assistance
COA	Court of Accounts
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Report
CRS	Control and Revision Service of the MOF
DFA&R	Department of Financial Analysis and Regulation of the MOF
DFID	Department for International Development
DFMAS	Debt Management and Financial Analysis System
EBE	Extra Budgetary Expenditure
EC	European Commission
EGPRSP	Economic Growth Poverty Reduction Strategy Paper
EU	European Union
FMIS	Financial Management Information System
FRA	Fiduciary Risk Assessment
FSP	Food Security Programme
GFS	Government Financial Statistics
GOM	Government of Moldova
HAD	Humanitarian Aid Department of MOE
HDI	Human Development Index
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPASB	International Public Sector Accounting Standards Board
JSC	Joint Stock Companies (where GOM have an ownership share)
LG	Local Government
LM	Line Ministry
MOE	Ministry of Economy and Trade
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBM	National Bank of Moldova
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SIDA	Swedish International Development Agency
SOE	State Owned Enterprises
SSIB	State Social Insurance Budget
ST	State Treasury
TA	Technical Assistance

TIN	Tax Identification Number
TOR	Terms of Reference
TT	Territorial Treasury
UNDP	United Nations Development Programme
VAT	Value Added Tax

Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		**Score**
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	D+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documentation	A
PI-7	Extent of unreported government operations	B+
PI-8	Transparency of inter-governmental fiscal relations	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+
PI-15	Effectiveness in collection of tax payments	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	B
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for non-salary expenditure	C+
PI-21	Effectiveness of internal audit	C+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	D
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	None
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D

Summary Assessment

(i) Integrated assessment of PFM performance

1. **Credibility of the budget**

The relationship between the expenditure outturn and budget that had been established is good with aggregate outturn expenditure exceeding that budgeted over the period from 2002 to 2004. This has been the result of a revenue surplus emanating from positive economic development and improvements in tax administration rather than overly cautious revenue forecasting. If these improvements are considered to be a continuing feature of Moldova, then ensuring less caution in revenue forecasting will be beneficial as it will give a better budget preparation perspective for Line Ministries. There has been some uneven variation by Line Ministry between outturn and budget which is by no means significant, but is in excess of the best assessment.

Data on arrears is not measured by time profile and although the level of arrears as a share of total expenditure is falling annually and stands at 5.6% in 2005, it is not possible to measure whether these arrears are chronic. The level of arrears does not appear to be of concern, but this would need to be verified by the introduction of age profiling.

2. **Comprehensiveness and transparency**

Although the level of extra budgetary expenditure is high at around 10% these are not unrecorded and are allocated as part of the budget process. The danger of this approach is that these expenditures may be allocated in isolation from other similar sector expenditures even though they are reflected in the budget and budget execution reports. The State Social Insurance Budget, revenues of which originate from social insurance contributions, transfers from the state budget and from other revenues (interest, late payment penalties) and the Compulsory Insurance Fund for Medical Assistance, the revenues from of which originate from compulsory insurance premiums for medical assistance, transfers from the state budget and other revenues (interest, late penalties) are part of the national public budget. Transfers to decentralized administration are also included in the State Budget and these are formula driven and are transparent. These decentralized administrations set their own budgets and these are readily available for scrutiny.

The budget calendar, introduced as part of the MTEF reforms, provides sufficient time for budget preparation and deliberation by Cabinet and Parliament, although it is not always fully respected. There is a good use of web based dissemination of information to the public at large.

3. **Policy-based budgeting**

National policy is established through the Economic Growth and Poverty Reduction Strategy Paper and the European Accession Plan. These policy aspirations are partly reflected in the MTEF sector strategies. The recent annual evaluation report on the Economic Growth and Poverty Reduction Strategy points out that there is some disconnect between it and the MTEF. The MTEF is the driving force behind budget reform and has been successful in delivering predictability in the fiscal framework at the aggregate level. The MTEF is Ministry of Finance driven and the involvement of Line Ministries, though not wholly absent, requires to be developed to match the level of the Ministry of Finance. It is only then will national policy be fully reflected in Line Ministries' budgets.

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

Budget execution is controlled through the setting of monthly cash limits which are based on forecasts of available resources and the individual needs of the spending institution with due regard to seasonality of expenditures. These cash limits are inflexible and the process does not taker account of commitments. In general control and monitoring is good with well-established procedures. Ex-post control of compliance is conducted by the Control and Revision Service of MOF. There is no fully functioning public sector internal audit system yet established in Moldova. The Payroll and Personnel function is decentralized and relies on the integrity of key individuals rather than a uniform and systematic system. There is provision for fines for those found to have contravened the system.

The procurement system has benefited from recent reforms, and, though improving, there appears to be a general lack of awareness of key changes to the regulations which may be attributable to a lack of training, lack of capacity and independent oversight.

5. **Accounting, recording and reporting**

Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes. Accounting, recording and reporting is done on a monthly basis through a budget execution format though cash balances are maintained daily. The annual budget execution report is not a consolidated financial statement and does not provide details of financial assets/liabilities, information on financial risk or contingent liabilities.

6. **External scrutiny and audit**

The Court of Accounts (COA) is free to audit any public body or institution including extra-budgetary funds. However, the current emphasis is on control and compliance activities rather than financial and performance audit. Generally the COA appears to be conducting this compliance function effectively. Arrangements for scrutiny of public finances and follow-up by the executive are operating.

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

The COA Chairman presents a summary report on the management of the State Budget to Parliament and COA is also required to present the results of ad-hoc audits requested by factions within Parliament. However there is general lack of parliamentary involvement in the work of the COA. The results of the Court's control activities do not tend to be discussed in Parliament or its committees

(ii) Assessment of the impact of PFM weaknesses

Weaknesses in the current PFM structure in Moldova are systemic and more a function of the inherited Soviet approach rather than any wilful attempt to have a PFM structure which allows misappropriation. The weaknesses are highlighted in Appendix 1 and can be summarized as:

- Budget Planning

 - need to improve planning at the line ministry level and maintain adherence to the budget calendar. The consequence of these weaknesses is that resource allocation linked to ministerial priorities will be ineffective and the centre will allocate the budget as it sees fit rather than an allocation based on sectoral expertise. Transparency will be opened to compromise.
- Budget Execution
  - The current procedures focus on rigid cash control and do not provide any real flexibility to amend budgets to accommodate changed circumstances. Whilst the strict control of cash is to be commended, the inherent weaknesses impact on the quality of Financial Management information, the specific requirements of services, and the ability of Budget Managers to have greater control over the use of budget resources.
- Budget Accounting and Controls
  - need to develop a public sector internal control environment and internal audit institutions, which are based on international models... Without these, control will focus on top-down compliance and enforcement rather than holding budget managers fully accountable for improving their organization's financial management systems.
  - basic control on the entry into contractual arrangements is in place, but this does not cover all areas of expenditure and does not provide ability for managers, Ministries and the MOF to monitor the commitments position. This weakness can really only be addressed through the proposed new FMIS and, without this, incomplete coverage will continue.
  - failure to achieve best value for money through competitive procurement practices will continue to be a high risk area given the environment in Moldova. As well as an updated Procurement Law the Government needs to address the present lack of independence of the Procurement Agency in Government, combined with a general improvement in public servants' understanding of modern procurement procedures through education and training.
- Budget Reporting and External Audit
  - the GOM has the ability to produce meaningful consolidated financial reports, which address issues of asset management, risk, contingent liability, etc. However, focus at present is on straightforward budget execution reports. A policy decision to organize the production of intelligent financial reports, which consolidate all aspects of the public sector, is required. Such a change can be initiated immediately – it does not need to await the new FMIS. Without this decisions will be made on limited information.
  - need to develop skills in financial and performance audit in accordance with modern auditing concepts. Greater demand and scrutiny of the work of the COA by Parliament, and media and civil society involvement will result from work which addresses topical public concerns (e.g. value for money, service delivery and thematic audits).

(iii) Prospects for reform planning and implementation

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

- Budget Preparation – the implementation of the MTEF.
- Service Delivery - the implementation of Public Administration Reform.
- Budget Execution and Accounting – the GOM is committed to the introduction of a new FMIS with a planned implementation date of January 2009. The proposals made appear to be very soundly based and should offer significant improvements in the quality and timeliness of financial information. There are, however, risks. Firstly this is a major exercise which demands quality time input from GOM staff, particularly MOF staff. Care is needed to ensure that the proposals and the implementation plan are both realistic and achievable. Secondly, it is understood that there are some reservations on the commitment to a new Payroll and Personnel module. The employment area accounts for a significant proportion of government expenditure, and proper FM payroll/personnel tools are essential. This must remain a priority FMIS development.
- Procurement – development of a new Procurement Law.
- Internal Audit – training and the development of a strategy for Public Financial Internal Control within Government (ongoing).
- External Audit – support to the COA including in 2006 the development of a Strategic Development Plan (ongoing).

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

The PEFA assessment is a snapshot of the current system where some of these reforms are beginning to filter through, but some will take some time to be implemented in full. The report is based on scoring that reflects the existing situation rather than the potential situation – implementation of the reforms should improve scoring at all levels. As well, this report being the first PEFA report on Moldova represents a baseline, which can be updated both in terms of changes that have taken place and omissions that have resulted from the time available to carry out this exercise.

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

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A1 Budget credibility	*In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.*		
The budget is realistic and is implemented as intended	Since the adoption of the MTEF, the budget has not suffered from cuts but has achieved a surplus, resulting from increased revenue and declining debt servicing. The level of arrears is on the decline.	The challenge will be to better forecast revenue while at the same time maintaining the more cautious stance. This will allow a better allocation of resources at the planning stage rather than increasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
A2 Comprehensiveness and transparency	*Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.*		
The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget		While EBEs are part of the budget process (c10% of total expenditure). They are not unrecorded. There is a danger that they are considered in isolation from expenditures in similar functions and are not judged as part of a total sector. e.g. extra budgetary fund for textbooks. Availability of information on the budget and scrutiny of the budget by Parliament and its Economic and Finance Committee provides adequate transparency. Nevertheless the recent delays in approving the MTEF have meant deviations from the budget calendar that could compromise transparency in allocating resources.	Where EBEs are not planned in the context of other sectoral expenditures, service delivery may be compromised due to a misalignment of resources.
	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
A3 Policy-based	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		

budgeting **The budget is prepared with due regard to government policy**	The adoption of the MTEF ensures that government policy is linked to planning in the context of a resource envelop which is realistically set.	The budget calendar provides sufficient time for due deliberation by Cabinet and Parliament (Economic and Finance Committee) to establish ministerial ceilings that reflect broad policy objectives. However, it is not consistently adhered to. The allocation of ceilings to strategic priorities within ministries is yet to be as developed as the macro aspects of the MTEF and the MTEF and EGPRS needs to be more fully aligned. At present the strategic allocations are driven more by the MOF than individual LMs though they do participate in the process. The next stage of the MTEF is to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum service delivery
	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
B1. Predictability and control in budget execution **The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds**	*Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.* The execution of the budget is based on planned monthly cash limits that are conveyed to budget holders. These monthly cash limits are based on revenue forecasts and are set to endure fiscal discipline is maintained. The controls set up to implement the rigid monthly cash limit budget execution do not allow for recording of commitments which if not managed well may lead to	Budget execution and control is based on the set budget both in terms of institutions and line item economic categories.	The rigidity of monthly cash limits may mean that inputs are not supplied when they are needed. However, monthly cash limits for any institution are based on the requirements of the institution in terms of potential need constrained by overall cash availability. This ensures that service delivery is part of the decision making process but cash availability is the ultimate deciding factor. The rigid monthly cash limit budget execution system ensures fiscal discipline, but potentially at the expenses of efficient service delivery as inputs may be provided according to cash availability

	arrears and breach fiscal targets. The reporting structure and controls in place appear to be adequate to ensure that this does not happen. However, improvements will be generated through the implementation of the FMIS.		rather than when needed to deliver services. Improved balance between short term borrowing plus revenue from taxes and expenditures over the year in the context of A1.1 would smooth out service delivery
	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
B2. Accounting, recording and reporting	*Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.*		
Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes	Cash balances are maintained on a daily basis and monthly expenditure and revenue reports are produced to ensure adequate decision- making information.	Information on actual expenditure against budget is provided at a disaggregated level.	The limitations of the bottom up element of the MTEF will be reflected in the data that is being recorded and impacts on service delivery at the planning and budget formulation stages.
	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
C1. Effective external scrutiny and audit	*Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.*		
Arrangements for scrutiny of public finances and follow up by executive are operating	There is scrutiny of the overall fiscal position both at cabinet and parliament level	Scrutiny though COA is based on control, rather than financial audits which meet international standards.	Performance audits reporting to Parliament has yet to be fully developed although COA has started pilot audits.

1: Introduction

For nearly 15 years of its independence, Moldova has benefited from various assistance projects, mostly in the form of investment projects, technical assistance projects and humanitarian assistance. To a lesser extent the mechanism of budget support was used. To date, Moldova has received budget support from the World Bank in the form of three Structural Adjustment Loans and Credits operations, and several grants from the Dutch Government and European Union. Most recent budget support operations took the form of financing of a Population Census by DFID and SIDA. Basically these five donors form a relatively small group, which can potentially be involved in future budget support. Meantime, the international consensus (stated in Monterrey declaration and reconfirmed in Paris declaration) on aid harmonization, simplification of procedures, and basing implementation on national capacities significantly enlarge the group of donors interested in strengthening of public finance system.

Despite the limited budget support operations in the past decade, further perspectives relating to the utilization of such a form of assistance are quite significant. Presently, several important processes are in place:

- Economic Growth and Poverty Reduction Strategy was elaborated by the Government and approved by the Parliament of Moldova and subsequently endorsed by the Board of Governors of the IMF and the World Bank. This creates a more comprehensive and sounder base for collaboration between donors and Moldova, including the area of budget support
- There is an increasing trend of building partnerships between donors and developing countries at the global level after Monterrey conference in the sphere of donor harmonization and collaboration.
- Accession of 10 new countries from East and Central Europe into the European Union in May 2004 will inevitably lead to some re-orientation of financial resources and programmes previously used by donor community in these countries to countries such as Moldova. Thus, importance of budget support will increase as it is one of the most efficient methods to channel substantial amounts of aid.

In order to use the budget support instrument more extensively, donors need to be sure that funds channelled through budget support:

- are used for intended purposes;
- achieve value for money; and
- are properly accounted for.

As mentioned above, these issues can only be addressed through a fiduciary risk assessment, which includes an assessment of Public Financial Management systems. Taking into account that currently all major donors in Moldova use their own assessment of public financial management, or rely on own management of their funds, or some components of the process of financing by other donors, this creates particular problems for organization of common projects in the area of budget support, as well as leading to high cumulative cost of assessments in terms of money and time made by each particular donor on case by case basis. Thus, the need for a Common Assessment of Public Financial Management to be made by major donors in Moldova has become more and more obvious.

The scope of the Fiduciary Risk Assessment is to undertake joint assessment of the situation in line with internationally recognized methodology. Objectives of joint risk assessment are to provide baseline information of state of Moldovan public financial management system; to assess overall financial risk and identify the most problematic areas, based on the independent team evaluation; to create basis for dialogue on further strengthening of Moldovan Public Financial Management System.

This assurance is being sought through this Public Expenditure and Financial Accountability (PEFA) assessment. This provides a common donor platform for an assessment of fiduciary risk in a review of the public financial management system currently operating in Moldova, but including any reforms or improvements that are currently being undertaken or planned. As well PEFA provides the Government of Moldova and donors with a standardised framework for evaluating Public Financial Management (PFM) performance and a vehicle for tracking progress over time.[1]

Preparation for the PEFA exercise was undertaken by the members of the working group on donor harmonization (Food Security Programme (FSP) of EC, Swedish International Development Agency (SIDA) and UNDP) with further involvement of the World Bank Office and IMF Resident Representative located in Moldova. Besides producing and agreeing the Terms of Reference and funding consultants, a key input into the preparatory process was a Video Conference between the PEFA Secretariat in Washington D.C., and representatives of the Government and Donors. This conference sensitised the Government to the PEFA exercise.

The first visit of consultants to Moldova took place from 9th to 19th October 2005.[2] During this period the current situation was assessed by reviewing background documents, collecting necessary data and interviewing key Government and Donor officials working within the public financial management system of Moldova. A preliminary discussion of findings was held with donors and the Minister of Finance and ministry officials. A mission note was prepared and distributed.

A second mission took place from 15th to 25th January 2006. During this visit, the consultants filled in information gaps and also discussed the preliminary findings with both Donors and Government and reviewed preliminary scores for the PEFA indicators with the latter. During the period between the missions, local consultants followed up with officials to collect outstanding information and the international consultants prepared a preliminary draft of the report based on all available information. For its part the Government established its own PEFA team and reviewed the PEFA indicators so as to be able to discuss them with the PEFA assessment team.

As a result of the second mission, a draft report was produced to be distributed to Donors and Government for comment. Following comments, this revised report was produced which is to be the basis for a workshop on PEFA in Moldova in the first half of June 2006.

Public financial management at the level of central government (including ministries, departments, autonomous agencies and deconcentrated entities) may cover only a limited amount of public expenditures that take place in a country, depending of the devolution of responsibilities to sub-national governments and public enterprises. In Moldova, public finances cover the Central Government, the Administrative Territorial Units (ATUs), a Compulsory Insurance Budget for Medical Assistance (CIBMA) and a State Social Insurance Budget (SSIB). The report identifies the share of public expenditures that is made by each of these agencies. The analysis of PFM for the most part focuses on central government, but where there are areas of overlap, the other agencies are included in the analysis given their relative importance. In some of the indicators, it has been possible to include an analysis of the contribution of CIBMA and SSIB, in others the coverage has been less detailed due to the time available to the team carrying out PEFA. This relatively lesser coverage of CIBMA and

[1] While the purpose of the PEFA is to provide a baseline PFM assessment for Governments to measure the progress of PFM reforms against, the Moldova PEFA was commissioned to provide a Fiduciary Risk Assessment with specific ToRs. A FRA report separate to the PEFA report has also been prepared.

[2] John Short (REPIM), EC funded, covering budget and tax issues and team leader; Andy Mackie (Bannock Consulting Ltd), SIDA funded, covering audit issues, and Des Smallman (Bannock Consulting Ltd.), SIDA funded, covering treasury issues) and two local consultants funded by UNDP (Andrei Busuioc covering audit issues and Tatiana Shipachiova covering treasury issues).

SSIB was the subject of comments on the draft report and where possible these comments have been addressed as fully as possible in the treatment of the appropriate indicator. However, any remaining gaps could be addressed more fully in an update.

The relative sizes of the various public finance agencies are

	2000	2001	2002	2003	2004
Public Expenditure as % of GDP[1]	32.8	28.3	29.8	28.9	31.2
of which State administered[2]	21.0	15.4	15.8	15.4	14.1
of which Local administered[3]	8.7	9.3	10.5	10.1	9.0
of which SSIB administered[2]	8.1	7.0	8.1	7.9	8.6
of which CIBMA administered[2]					2.9

Source: Ministry of Finance

[1] Without special financing and special funds
[2] Includes transfers from State Budget to SSIB and CIBMA. In 2004 this amounted to 1.4 percent and 2 percent of GDP to SSIB and CIBMA is such a way being double counted elements.
[3] Includes transfers from the State Budget which was 2.8 per cent of GDP in 2004

2: Country Background Information

2.1: Description of the Country Economic Situation

The population of Moldova[3] declined to below 4 million in 2004 due to a combination of emigration and the crude death rate outstripping the birth rate. However, the decade from 1995 has produced marked improvements in Moldova's health indicators with infant, under-5 and maternal morality rates declining significantly as shown in Table 1. Life expectancy at birth for all citizens improved. The provision of education and health services has also improved using student teacher ration and medical staff per 10,000 citizens as proxies. Moldova's performance in meeting the Millennium Development Goals (MDG) is positive (UNDP Human Development Report 2005).

Table 1: Moldova: Social Indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Population (millions)	4.348	4.334	4.32	4.305	4.293	4.281	4.264	4.248	4.229	3.968
Birth rate (per 1,000)	13.0	12.0	11.9	10.9	10.6	10.2	10.0	9.9	10.1	11.3
Crude death rate (per 1,000)	12.2	11.5	11.9	11.1	11.3	11.3	11.0	11.6	11.9	12.3
Natural increase (per 1,000)	0.8	0.5	0.0	-0.2	-0.1	-1.1	-1.0	-1.7	-1.8	-1.0
Infant Mortality rate (per 1,000 live births)	21.2	20.2	19.8	17.6	18.2	18.3	16.3	14.7	14.4	12.2
Under 5 mortality rate	27.3	26.4	26.5	22.8	23.9	23.3	20.3	18.2	17.8	
Maternal mortality rate (per 100,000 births)	40.8	40.2	48.3	36.3	28.6	27.1	43.9	28.0	21.9	
Male life expectancy at birth	61.8	62.9	62.9	64.0	63.7	63.9	64.5	64.4	64.5	
Female life expectancy at birth	69.7	70.4	70.3	71.4	71.0	71.2	71.2	71.7	71.6	
Student teacher ratios										
School, gymnasium, lyceums	13.8	14.5	14.5	14.5	14.9	14.9	14.6	14.5	13.6	13.3
Vocational Schools	9.9	10.0	10.2	20.3	9.2	9.9	10.0	10.3	10.3	
Colleges	11.9	13.3	14.3	12.4	11.5	10.5	8.5	8.9	10.6	12.4
Universities	12.7	13.3	14.3	15.5	16.2	14.9	16.3	17.3	18.2	19.4
Doctors per 10,000	39.8	39.9	40.2	40.6	36.7	35.6	35.4	35.4	35.1	
Nurses per 10,000	103.9	99.6	97.7	94.9	83.9	80.5	76.1	76.1	74.1	
Hospital beds per 10,000	122.2	121.4	116.4	112.4	82.0	76.0	69.0	68.0	66.8	

Source: Moldova Economic Trends September 2005

Poverty Profile

Poverty indicators (rate, gap and severity) are estimated by comparing consumption expenditure per adult equivalent with the absolute poverty line, with the poverty line based on food consumption and with the poverty line based on the subsistence minimum, estimated in Moldovan Lei per adult equivalent per month. Other associated measures include poverty gap and poverty severity. The poverty gap measures the average shortfall of the incomes of the poor as a percentage of the poverty line. The higher the poverty gap ratio for a poverty line the larger the gap between incomes of the poor and the poverty line. Poverty severity measures the depth of poverty by assigning a larger weight to the poorest households. The measure takes into account inequality among the poor.

In 2004, 14.7% of the population lived in extreme poverty and 26.5% lived in absolute poverty. This situation compares favourably with 1998, and particularly 1999 and 2000 when there had been a decline in living standards. Table 2 shows the evolution from 1998 to 2004 of various poverty measures, calculated at the total national level. On all the measurements of poverty, Moldova has experienced a significant improvement. Moldova's Gini index was 36

[3] Following a civil war in 1992, the region on the left bank of the Nistru River (Transnistria) seceded. Before the breakup, this region accounted for about 40 percent of Soviet Moldova's GDP, 15 percent of its population, and 12.5 percent of its territory. It was also home to the bulk of Moldova's industrial base.

in 2003 according to the 2005 Human Development Report (UNDP) with an index of 100 representing perfect inequality and zero prefect equality.

Table 2: Moldova: Poverty Indicators							
	1998	1999	2000	2001	2002	2003	2004
Absolute Poverty							
Rate	52.0	73.0	67.8	54.6	40.4	29.0	26.5
Gap	19.5	32.3	27.0	19.3	12.4	7.3	2.5
Severity	9.8	17.7	13.7	9.1	5.2	2.7	2.5
Extreme Poverty							
Rate	37.4	59.7	52.2	38.0	26.2	15.0	14.7
Gap	12.4	22.7	17.6	11.6	6.6	3.1	3.2
Severity	5.9	11.4	8.2	5.1	2.4	1.0	1.1
Poverty rate (expenditure per equivalent)	31.9	53.2	45.0	23.2	21.0	11.5	11.4
Source: Moldova Economic Trends September 2005							

Real GDP growth since 1999 has been positive (table 3) and has been in excess of 6 percent in each year since 2000 reaching 7.3 per cent in 2004. Per capita GDP has almost tripled in Lei terms between 1999 and 2004 and 2.4 times in dollar terms. Contributing factors were the stabilization of eastern markets, primarily Russia, rising domestic demand due, inter alia, to increasing money inflows from labour migrants, and restrictions on the growth of money supply, which helped reduce inflation. The structure of the economy has changed since 1999 with the share of agriculture declining from just under 25 per cent to 18 percent in 2004 and trade also declining in importance. The share of transport has grown most. The non-state sector became dominant. In 2002 its share in GDP was 75%, with a share of over 80% in industrial manufacturing, over 95% in retail trade, almost 100% in the agrarian sector, and 54% in the sector of paid services. Economic outcomes, including the rate of growth, are now mainly determined by the activity and performance of the private sector.

An inflation rate in excess of 30 percent in 1999 and 2000 had been reduced to 5.3 per cent in 2002, but has crept upwards in the two following years to 12.5 percent.

Table 3: Moldova: Economic Indicators						
	1999	2000	2001	2002	2003	2004
GDP Lei million	12,322	16,020	19,052	22,556	27,619	31,992
of which Agriculture %	24.9	25.4	22.4	21.0	18.5	18.2
of which Industry %	17.0	16.3	18.7	17.3	17.6	16.4
of which Construction %	3.3	2.7	3.1	2.9	2.9	4.1
of which Trade %	15.3	12.5	12.0	11.0	10.7	10.6
of which Transport %	8.2	9.5	10.4	10.9	10.8	11.5
GDP lei per capita	2,870	3,742	4,468	5,310	6,531	8,062
GDP $ per capita	273	301	347	391	468	654
Real GDP Growth		2.1	6.1	7.2	6.6	7.3
Consumer Price Inflation (Annual Av %)	39.3	31.3	9.8	5.3	11.7	12.5
Export of Goods ($m)	464	472	568	644	790	986
Import of Goods ($m)	587	776	893	1,039	1,403	1,774
Current Account Balance ($m)		-106	-27	-68	-132	-122
Foreign Exchange Reserves excl. Gold ($m)		222	227	270	302	470
Foreign Exchange Reserves months of imports		3.4	3.1	3.1	2.6	3.2
Total Extenal debt ($m)		1,740	1,675	1,816	1,918	1,973
Debt Service ratio, paid (%)		20.9	17.0	10.4	8.4	10.7
Exchange rate Lei/$	10.5	12.4	12.9	13.6	13.9	12.3
Source: Moldova Economic Trends September 2005						

With respect to the external account, exports grew by a factor of just over 2 from 1999 to 2004 while imports grew by a factor of 3. However, both the current account balance and foreign exchange position do not reflect such a precarious imbalance in the trade in goods as remittances from overseas have been high contributing to some 25 percent of GDP. The lei appreciated against the dollar in 2004 (reflecting in part dollar weaknesses).

Table 4 present the Human Development Index (HDI) which is a summary measure of three dimensions of human development: leading a long and healthy life (measured by life expectancy at birth); being knowledgeable (measured by literacy and school enrolment); and having a decent standard of living (measured by GDP per capita). HDIs taken from two sources; Moldova Social Trends and UNDP's 2005 Human Development Report are shown.

Table 4: Moldova :Human Development Index

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

Moldova falls in the Medium Human Development category (0.5 to 0.799) and is ranked 115 out of 177 countries in the UNDP report.[4] While there are differences in the index between the two sources[5], the most interesting feature of table 4 is the decline in the (UNDP) HDI of 0.739 in 1990. This decline is attributed to a substantial collapse in per capita income with an annual average fall of 5.7 percent between 1990 and 2003. In 1999, per capita income was estimated to be $3,974, but by 2003 it had plummeted to $1,510.[6]. In 1990, Moldova was ranked 55 out of the 136 countries for which a HDI was computed.[7]. It can be inferred from this that Moldova had improved its performance in the health and education indicators since 1990 as all three components of the HDI are given equal weight.

Overall government reform programme

The Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) is the overarching policy framework for Moldova. Its policy priorities are to improve living standards and the social protection of the poorest, create new job opportunities especially for poor, provide access to good quality medical services, and build high quality human capital through educational and scientific development. Maintaining high rate of economic growth is the cornerstone to these policy objectives, as well as integrating Moldova into the regional, European and world economy based on a coherent and stable legal framework, harmonized with European principles and standards, and oriented towards the creation of a favourable entrepreneurial and investment climate. The EGRPSP covers in detail policies dealing with:

- strengthening the judicial system
- fighting corruption
- private sector development
- regulatory framework reform
- competition promotion and protection
- improvement of corporate management
- support and development of small and medium-scale enterprises
- promotion of external trade
- improving the investment environment
- infrastructure development covering energy; roads and transport; water supply and sewerage; telecommunications and information technologies and housing
- agri-food sector and rural development
- regional development policy
- tourism
- environmental protection and sustainable use of natural resources
- social development covering education; healthcare; social

4 Norway was ranked first with a HDI of 0.963 and Niger 177th with an HDI of 0.281.
5 Likely to be explained by difference in data with UDNP adopting a standardised approach for all countries which may make adjustments to national data.
6 Measured by Purchasing Power Parity (PPP) dollars.
7 Canada ranked first with a HDI of 0.929 and Niger last with a HDI of 0.249

- property and land
- financial sector
- industry
- research and innovation

insurance; social assistance; labour market and youth policy

Key elements of the policy framework with respect to economic and fiscal issues are:

- Macro economic policy
  - To reduce inflation in order to provide favourable conditions for business and investment, and to protect the real incomes of the population,
  - To maintain a flexible exchange rate policy and provide favourable conditions for external economic activity,
  - To stabilize the external debt situation and improve debt management so as to decrease external risk,
  - To undertake a budgetary-fiscal policy that would ensure a balanced evolution in incomes and expenditures.
- Fiscal Policy
  - to ensure the stability and predictability of public revenues, especially tax collections for full coverage of budgetary obligations,
  - to ensure fiscal equity, stability and transparency of fiscal legislation,
  - to stimulate economic activity, especially by encouraging the development of small business, by attracting external and domestic investments in the national economy, the creation of new workplaces, etc.
- Public Expenditure Policy
  - promotion of a restrictive budgetary policy, with emphasis on rationalization and efficiency of public expenditures,
  - reallocation of existing resources from less important to top-priority programmes which have a substantial impact on the economic growth and poverty alleviation.

With respect to Public Finance Management, measures have been initiated to ensure the efficient functioning of the budgetary system. The long-term objective is the building of a system to European standards. These include:

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

Rationale for PFM reforms

Parallel to the development of these technical financial management aspects is the reform programme in three interrelated broad areas of activity: Regulatory Reform, Public Administration Reform and Budget Reform. In this context, a key priority for the Government is the establishment of a modern and efficient system of public administration consistent with European Union principles of good-governance. With respect to regulation the State Commission for Business Regulation has been established to streamline the legislative and institutional framework for business regulation, and monitor the performance of relevant public authorities. The third strand of the reform programme, but the first to be implemented in 2003 is budget reform which has been centred on the implementation of the Medium Term Expenditure Framework (MTEF) approach to budgeting. The MTEF in

Moldova is based on macroeconomic forecasts and subsequent estimates for a three year period on a rolling basis of revenues and expenditures that reflect fiscal policy (and tax administration), public debt policy and the sources of budget deficit financing. It presents the subsequent resource allocation to service delivery units based on these estimates that reflect both national and sectoral policies and delivery through the State and ATU budget. While the MTEF is well established at the macro level and sets out the resource envelop and sector ceilings, it only now beginning to tackle the more demanding issues linking resource allocation to policy at the ministerial and sector level. In this respect public administration and regulatory reform are timely and together they all allow the focus of public expenditure to shift to service delivery to meet the pro poor objectives of the EGPRSP, while maintaining the macro economic and fiscal stability objective.

While MTEF improvement and broadening allowed for a better allocation of resources, the expenditure framework is not yet fully adjusted to EGPRS priorities.[8] Moreover, the increase of allocations within MTEF is not necessarily accompanied by progress in improving the efficiency in the use of funds. MTEF for 2006-2008, and the budget for 2006 continue to be socially oriented, ensuring a reasonable coverage of EGPRS priorities in social sectors including the funding of social infrastructure. Public investment related to economic growth, however, remains compressed. Given the unsatisfactory and deteriorated state of public infrastructure such low level of expenditures inhibits the prospects for a future economic growth. During the EGPRS process for 2007-2009, a more serious dialogue between relevant institutions was initiated with regard to the need of a better reflection of EGPRS and MTEF priorities. To this end, modifications in the action plan for MTEF development were introduced for improved synchronization with the monitoring and assessment of EGPRS implementation. This is to allow for better information at the level of setting the sector ceilings for public expenditures and distribution of priorities within sectors.

2.2: Budgetary Outcomes

Table 5 presents the aggregate budget and fiscal position in Moldova from 1999 to 2004, excluding SSIB and CIBMA.

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

- Expenditure of State and Administrative Territorial Units declined from a peak of 28.4 percent of GDP in 1999 to 22.4 percent of GDP in 2003 before recovering slightly in 2004.
- The primary reason for this was the decline in debt service interest payments which dropped from 7 percent in 1999 to 2.1 percent in 2003.
- The share of recurrent expenditure on services did not fluctuate markedly and was over 17 percent of GDP in 4 of the years, but was 15.3 percent of GDP in 2001 and 16.7 percent in 2004.
- Capital and other expenditures ranged between 2.9 and 4.3 percent of GDP.
- Up to 10.5 percent of expenditures were undertaken by Local Administrations.

With respect to revenue, tax revenues became a more important source of funding over time reaching 21.5 percent of GDP in 2004 while non tax revenues declined to 1.7 percent of GDP in 2004 from a peak of 4.6 percent of GDP in 2000. Grants while always small in size became negligible in importance by 2004.

The budget deficit swung from 3.2 percent of GDP in 1999 to a surplus of 0.4 percent of GDP in 2004 while the primary balance (domestic revenue less non debt expenditure) was always in surplus and reached 5.3 percent of GDP in 2000 with a low of 1.7 percent in 2002. Financing of the deficit was predominantly through domestic sources as there were significant

[8] Annual Evaluation Report on The Implementation of The Economic Growth and Poverty Reduction Strategy Paper – 2005, SCERS Government of Moldova

annual repayments of foreign loans which exceeded new loans except in 1999. In 2000 privatisation receipts were the single biggest source of deficit financing.

Table 5: Moldova: Budget and Fiscal Indicators

	1999	2000	2001	2002	2003	2004
Expenditure of State and ATUs Budget as % of GDP	28.4	26.6	22.7	23.0	22.4	23.1
of which services (annual)	17.7	17.2	15.3	17.9	17.1	16.4
of which debt service	7.0	6.4	4.2	2.2	2.1	2.4
of which capital and other expenditures	3.7	3.0	3.2	2.9	3.2	4.3
of which administered by the Government		21.0	15.4	15.8	15.4	16.9
of which administered locally		8.7	9.3	10.5	10.1	9.0
Total Revenue as % of GDP	25.2	25.6	22.7	22.5	24.0	23.0
of which Tax Revenues	19.7	19.3	18.0	19.0	20.7	21.4
of which Non Tax Revenues	3.5	4.6	3.4	2.7	2.8	1.7
of which Grants	0.9	0.8	0.8	0.3	0.0	0.1
Budget Deficit (-) Surplus (+)	-3.2	-1.0	0.0	-0.5	1.6	0.4
Primary Balance	3.8	5.3	4.2	1.7	3.6	2.8
Financing	3.2	1.0	0.0	0.5	-1.6	-0.4
Net External Financing	1.2	-0.2	-2.7	-1.4	-1.7	-2.7
Disbursements	4.7	1.5	0.3	0.6	0.0	0.0
Amortisation	-3.4	-1.5	-3.1	-2.0	-1.7	-2.7
State guarantees		-0.2	0.0	0.0	0.0	0.0
Net Domestic Financing	2.6	0.7	1.9	2.0	0.1	2.6
Net Credits given by NBM	2.5	0.0	1.0	1.1	0.0	1.9
Net sales of treasury security	0.3	0.7	1.0	0.8	0.4	0.6
Other	-0.2	0.0	-0.1	0.2	-0.3	0.1
Receipts from Privitisation		1.9		0.3	0.0	0.1
Current Balance	-0.6	-1.4	0.8	-0.4	0.1	0.3

Source: Ministry of Finance

Table 6 shows recurrent spending on services as a percent of GDP. The salient features are:

- Education received the largest single share which increased to 5.5 per cent of GDP in 2002 before declining slightly. By comparison, debt interest was 7.0 and 6.4 percent of GDP in 1999 and 2000.
- Social Insurance and Social Security payments fell from 3.8 percent of GDP in 1999 and 2000 to 2.6 percent in 2001 and increased to 2.8 percent in 2004.[9]
- Health Care expenditures increased from 2.9 percent of GDP in 1999 to 3.5 percent of GDP in 2003 before falling back to 2.7 percent of GDP in 2004.[10]
- Spending on Agriculture and related activities fell by over half as a per cent of GDP.

[9] Expenditure by the State Social Insurance Fund (see Table 8) is the most important contributor to expenditure in this sector (8.6 per cent of GDP in 2004).

[10] Expenditure by the Health Fund (see Table 8) is the most important contributor to expenditure in this sector (2.9 per cent of GDP in 2004).

Table 6: Moldova Expenditure (recurrent) of the Stete and ATUs on Services (as % of GDP)

	1999	2000	2001	2002	2003	2004
General Purpose State Services	1.8	1.9	1.8	1.9	1.8	1.9
National Defence	0.5	0.4	0.4	0.4	0.4	0.4
Public Order Maintenance, National Security	1.7	1.6	1.6	2.1	1.9	1.7
Education	4.7	4.5	4.8	5.5	5.4	5.4
Health Care	2.9	2.9	2.8	3.5	3.4	2.7
Social Insurance and Social Security	3.8	3.8	2.6	2.9	2.7	2.8
Culture, Arts, Sports & Youth Events	0.5	0.5	0.5	0.6	0.6	0.7
Agriculture, Forestry, Fishery & Water	1.1	1.0	0.3	0.5	0.4	0.5
Protection of Environment & Hydro-meteorology	0.1	0.0	0.0	0.0	0.0	0.0
Transport, Roads, Communications, Informatics	0.6	0.6	0.5	0.5	0.5	0.6

Source: Ministry of Finance

Table 7 presents expenditure by economic category. The wage bill grew annually from 2000 as a percentage of GDP as did expenditure on goods and services. Transfers to persons (under social insurance) are the second largest category (except in 2000 when it was the largest).

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

	2000	2001	2002	2003	2004
Salary Payments	7.7	8.1	9.5	9.6	7.8
Goods and Services	6.0	6.1	6.9	6.2	7.8
Transfers for Production Purposes	2.1	1.4	1.4	1.6	2.0
Transfers to Population	8.7	7.8	9.1	8.8	9.7
of which from State Social Insurance Budget	8.1	7.0	8.1	7.6	8.4
Other	0.6	0.6	0.6	0.5	0.6
Capital	5.0	3.5	5.0	4.6	5.0

Source: MTEF 2006 – 2008

In addition to the fiscal position outlined above, Moldova has both CIBMA and SSIB which are financed by employee and employer contributions and some transfers from the State Budget to cover the expenditure of those not covered by the Funds. The revenue and expenditures of the Funds are shown in Table 8.

Table 8: Moldova SSIB and CIBMA (as % of GDP)

	2000	2001	2002	2003	2004
Revenue					
SSIB	6.3	6.8	7.3	7.2	7.8
CIBMA				n.a.	1.0
Expenditure					
SSIB	8.3	7.2	8.4	7.9	8.6
CIBMA				n.a.	2.9

Source: Ministry of Finance

Adding the State Budget and the Funds together gives revenue and expenditure to GDP ratios for Moldova in excess of 30%.

2.3: Legal and Institutional Framework for PFM

The Constitution is the supreme law of the country and was passed by the National Parliament on July 29, 1994. The current Constitution was adopted on July 12, 2001. The Constitution provides Parliament as the supreme representative organ and the single legislative authority of the state. The Government is a body formed by the Prime Minister, Deputy Prime Minister, and Ministers, to formulate and implement policy of the state and provide general leadership of the public administration. The President of the Republic of Moldova, after consultation with the parliamentary majority, nominates the Prime Minister and Government which is approved by a vote in the Parliament.

The Constitutional Court is the sole authority of constitutional issues and is a unique constitutional judicial body, autonomous and independent from the executive, the legislature and the judiciary. The Constitutional Court guarantees the supremacy of the Constitution, ensures a separation of State powers into the legislative, executive and judicial branches, and guarantees the State's responsibility towards the citizen and the citizen's responsibility towards the State.

The legislative, executive and judicial powers are separated while collaborating in exercising their responsibilities. Judicial authority is through the courts system, regulated by the Constitution and specific laws: Law on the Judicial Organization (Adopted on October 19, 1995), Law on the Status of Judge (Adopted on July 20, 1995), Law on the Supreme Court of Justice (Adopted on March 26, 1995), Law on the System of Military Courts (Adopted on August 1, 1996), and Law on the Economic Courts (Adopted on November 26, 1996).

This court system is comprised of the following jurisdictions: Supreme Court of Justice, Court of Appeals, Tribunals, and ordinary courts. The Constitutional Court is judicial based and is independent of any other public authority and obeys only the Constitution.

The Law on Government was adopted on May 31, 1990 with a number of amendments introduced by laws of the Republic of Moldova. The latest amendment was dated April 14, 2005, No. 23-XVI. The relevant legal framework for PFM is the Organic Law on Budgetary Systems and Budgetary Processes (1996) and the Law on Local Public Finance (2003) supplemented by Cabinet regulations, instructions and recommendations issued by the Ministry of Finance (MOF). For example provision for the Medium Term Budget Framework (MTBF) (a MTEF in another name) is now part of the Organic Budget Law. Tax Code (April 1997 as amended) and Law on Customs Tariff (Nov 1997, as amended) and Law on Public System of Social Insurance (implemented July 2000) covers revenue. Law on Local Public Finance was amended last time on December 23rd, 2005. Tax revenue is collected through two separate departments – State Tax Inspectorate and Customs Service each with their own law *viz*, Tax Code (April 1997, as amended) and Customs Code (July 2000) and Law on Customs Tariff (Nov 1997, as amended). The organisation and financing of Local Adminitration is covered in Law on State Budget System and Process (LSBSP) (no.847-XIII of May 24, 1996) and Law on Local Public Finance (LLPF) (no.397-XV of October 16, 2003), based on the Law on Local Public Administration (LPA) (no.123-XV of March 18, 2003). These specify the structure of local government into two levels (1 and 2) and how each level is financed and what services are delivered at each level.

The MOF manages the budget process and prepares the annual financial statements of the Government. The MOF’s State Treasury (ST) Department manages cash resources, and supervises accounting procedures. The Control and Revision Service (CRS) monitors compliance with financial regulations. While the MOF coordinates budget preparation, Ministry of Economy (MOE) prepares the macro forecasts and Line Ministries (LM) input into the process related to their own sphere of activity. Some services are delivered at a sub national level and the ST has territorial offices to manage its work in the budget sector.

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

3: Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

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

Aggregate budgeted and outturn expenditure is presented below for 2002, 2003 and 2004 covering two expenditure specifications. Included in (A) are the expenditures of the Social Fund (SSIB) and Health Fund (CIBMA) and in (B) just the State transfers to these Funds are included. In each of the years, outturn is above budgeted expenditure. In (A), the main reason for the more than budgeted expenditure is greater than budgeted revenue (see PI-3) and also smaller than budgeted debt interest payments in 2002 and 2004 which allowed higher non-debt expenditure in those years. The much higher outturn expenditure in (B) compared to (A) is because the deviation of actual expenditure from the budget is much less for the two Funds than State expenditures. When additional revenues have become available these have been allocated to services provided directly by the State.

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

	Budget	Actual	+,-	%
2002	4966.5	5186.3	219.8	4.4
2003	6034.1	6206.0	171.9	2.8
2004	7679.4	8090.7	411.3	5.4

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

	Budget	Actual	+,-	%
2002	3655.8	4010.5	354.7	9.7
2003	4500.8	4842.5	341.7	7.6
2004	4765.6	5250.3	484.7	10.2

Source Ministry of Finance Budget Implementation Data
Note: in 2002 expenditure financed from special sources are included, which were not approved as annex to the State Budget Law, but were reflected in budget reporting and in budget documentation, respectively, in amounts of 544.1 mil. Lei and 557.1 mil. Lei.

(A)	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved b	Score A (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
(B)	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved b	Score B (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure.

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

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

The budgeted and actual expenditure data and the variances for (A) and (B) in PI-1 above are as follows

(A)

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2002	4.4%	10.8%	6.4%
2003	2.8%	6.8%	3.9%
2004	5.4%	10.4%	5.1%

(B)

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2002	4.4%	18.4%	8.7%
2003	2.8%	10.4%	2.8%
2004	5.4%	12.7%	2.6%

The variances in excess of the total deviation have exceeded 5% in two of the 3 years (failing the B score by one year), and consequently this gives a score of C for scenario A but an improved score of A for scenario (B). These have been derived from the following ministerial expenditure information.

Central Government Expenditure (excluding debt servicing and donor funded projects) by function (Mil. Lei)

	2002		2003		2004	
Functional Head	Budget	Actual	Budget	Actual	Budget	Actual
State Services and Administration	309.9	334.0	392.2	400.8	478.9	487.5
External Affairs	114.6	108.6	133.4	135.9	166.6	157.3
National Defence	101.3	109.4	146.9	128.1	173.5	132.8
Justice and Constitutional Affairs	42.7	55.9	63.5	74.0	91.5	87.8
Public Order and Security	325.3	475.7	533.3	521.8	553.1	549.6
Education	534.6	481.7	594.3	605.2	659.1	718.8
Science and Innovation	48.3	53.5	67.5	65.6	81.8	82.7
Culture, Arts, & Sport	72.7	73.6	88.4	101.4	90.1	120.6
Health Care	330.2	340.2	247.1	408.6	198.7	209.8
Social Assistance	225.2	238.8	291.1	320.7	394.9	410.5
Agriculture, forest, fishing & domestic water	118.4	97.9	136.4	114.8	146.7	159.4
Environmental protection, hydrometeorology	30.8	27.6	33.5	33.8	23.5	48.6
Industry and Construction	8.9	6.2	10.4	9.6	11.0	11.6
Transports, Roads, Communication and Informatics	90.2	90.8	101.1	101.1	132.9	132.9
Housing	0.6	0.8	0.7	0.8	3.2	1.4
Complex for Fuel and Energy	1.8	1.7	2.2	2.1	3.4	1.7
Other Economic Services	50.6	34.1	44.4	41.9	48.8	48.3
Other	596.9	684.8	794.8	789.2	729.6	820.0
Capital expenditures	128.5	71.4	111.3	164.4	141.6	203.0
Social Fund expenditure	1835.0	1899.6	2229.1	2173.9	2479.8	2768.9
Health Fund expenditures			12.5	12.3	1070.7	937.5
Total	4966.5	5186.3	6034.1	6206.0	7679.4	8090.7

Source Ministry of Finance Budget Implementation Data

(A)	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score C (iii) Variance in expenditure composition exceeded overall deviation in primary expenditure by 15 percentage points in no more than one of the last three years.
(B)	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score A (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.

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

Outturn and budgeted revenue data for 2002, 2003 and 2004 are presented below. In each year, actual revenue was higher than that forecast in the budget. Revenue improvements stemmed from increased GDP and improvements in tax administration and policy to expand the tax base. Income tax growth is attributed to increased private sector activity and VAT growth was fuelled by increased retail sales as a result of remittances.

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

Central Government Revenue (Mil. Lei)

	Budget	Outturn	+,-	%
2002	5574.0	5592.6	18.6	100.3
2003	6236.0	7374.8	1138.8	118.3
2004	8741.6	9258.7	517.1	105.9

Source Ministry of Finance Budget Implementation Data

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

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

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

Information on arrears outstanding is collected every month. Individual institutions supply data to their LM. Local Government (LG) bodies supply data to their ATU. The LM and ATU then forward the information to the ST. The information received by the ST is the total of arrears for the particular organisation. This information is entered into the treasury systems and it enables the ST to monitor the overall arrears position. Because no breakdown on individual creditors is provided it is impossible for the ST to provide an “Age Profile” of debt (see tax arrears PI–15 also). Subsequent to the two PEFA missions and in response to the draft report, the MOF have provided data for 2005 (included in the table below). However, these data were not available when the last visit was made and there was no indication that the MOF was able to provide the age analysis despite specific questions being asked. In its comments on the PEFA draft, the Ministry of Finance states that “starting with year 2005, LM quarterly present to the MOF information on arrears at the level of suppliers, indicating the age of arrears". However, this has not been corroborated by data supplied to the PEFA Team.

The arrears position for the last 4 years is set out in the following table:

Arrears Classification (Lei Millions)

	2002	2003	2004	2005
STATE Budget				
Staffing	51.5776	61.8657	61.3127	66.7144
Other	257.6081	260.2154	292.1916	149.2025
% of Outturn	8.86%	7.74%	7.60%	3.17%
LOCAL GOVT				
Staffing	79.131	75.05	79.887	87.166
Other	395.693	336.9026	261.8271	281.3448
% 0f Outturn	20.55%	14.70%	11.80%	10.36%
OVERALL				
Staffing	130.7086	136.9157	141.1997	153.881
Other	653.3011	597.118	554.0187	430.5515
% of Outturn	**13.52%**	**10.54%**	**9.21%**	**5.64%**

Source: Ministry of Finance

Footnote: Information on the arrears position for CIBMA and SSIB is available but excluded from the above table, because it was not possible to identify whether the Funds' creditors include sums due from GOM. Data on "arrears" are also available for SOEs, but are similarly excluded.

An analysis of the table identifies a number of issues:

- The volume of arrears in the State Budget is consistent and reducing.
- The position with local government is of more concern – although clearly the level of arrears has reduced significantly. The MOF has very little practical control over this area, and there is perhaps a need to undertake further analysis to identify whether there are particular problems that need to be addressed.
- The position on staffing is also difficult to understand. The absence of modern payroll facilities throughout the public sector does not help. One explanation is that the December 2005 salary data has to be submitted to the Treasury by 5 January 2006, so that it can be paid mid January. Unfortunately the "arrears" figures do not represent one months pay, so it is difficult to identify why such arrears arise. In the local government area the level of arrears is significantly higher, and the arrears figures are increasing. Again detailed investigation would be helpful to identify the causes.
- The overall percentages are high – but mainly because the GOM was unable to supply a proper "age profile" analysis identifying debt of more than 30 days

A score of D has been allocated on the grounds that the stock of arrears exceeds 10% of .total expenditure and there is no age profile. A score of D may seem particularly harsh. Nonetheless without a verified age profile and in the absence of a detailed analysis of the CIBMA and the SSIB there is no other choice but to award a D. In practical terms the evidence points to the MOF making significant annual improvements in this area with arrears in 2005 falling to below 6% from just under 14% in 2002. Significant changes in processes will accompany FMIS implementation.

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

The MOF collect arrears data on a regular basis and there is evidence that the monitoring undertaken has helped in reducing the overall level of arrears in the last 3 years. It is also clear that the more stable financial position achieved in the last 2 years will have assisted the arrears reduction process. The data is generated monthly, and at institution and municipality levels the information on "age profile" will be readily available. One step, therefore, that the

MOF should consider taking is asking for the additional “age profile” information at the year end. If this step were taken alongside the investigations suggested in the first criteria, then the “score” under this dimension of the indicator could quickly move to an A position. A score of B has been allocated.

The detailed data on creditors and the age of debt will not, logically, be readily available on a regular basis until FMIS implementation (scheduled for January 2009) when an “Accounts Payable” module should be able to generate all such detail. In the meantime the MOF can make short term improvement by requesting more appropriate year-end data. They should also produce an overall public sector position by including the arrears of the CIBMA and the SSIB.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Score D+ (i) The stock of arrears exceeds 10% of total expenditure. Score D (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. Score B

3.2. Transparency and comprehensiveness

PI-5. Classification of the budget

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

The current Budget Classification/Chart of Account for the State sector is based upon Government Financial Statistics (GFS) 1986. However, an IMF technical mission has identified some discrepancies compared to those standards with respect to the functional classification. Also the SSIB and the CIBMA operate their own Chart of Accounts. In total, 5 Chart of Accounts are in operation in the public sector. In 2005 the MOF, assisted by a US Treasury Advisor, carried out substantial work to revise the economic classification of expenditures and revenues into a format compatible with GFS 2001. However, it has now been decided not to introduce any changes until FMIS is operational. This is a sensible and logical decision.

The proposed FMIS development envisages a comprehensive review of the budget classification. The FMIS inception report includes proposals for integrating “programme budgeting” into the budget classification and chart of accounts. The inception report also envisages that the new chart of accounts will be consistently applied across all institutions in the public sector, including local government, the SSIB and the CIBMA... This means one new chart of account replacing the five that currently exists. The next step in the FMIS project is to appoint consultants to prepare the TOR for the FMIS Implementation Project after which a contract will need for the actual implementation.

The GOM is moving sensibly to a position where there will be full compliance with GFS 2001 classifications. The introduction of a FMIS will offer full compliance with this indicator. The current position warrants a C score.

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

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

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

Element	MTEF	Budget
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes	Yes
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes	Yes
3. Deficit financing, describing anticipated composition.	Yes	Yes
4. Debt stock, including details at least for the beginning of the current year.	Yes	Yes
5. Financial Assets, including details at least for the beginning of the current year.	No	No[11]
6. Prior year's budget outturn, presented in the same format as the budget proposal.	Yes	Yes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes	Yes
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	Yes
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes	Yes

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

PI-7. Extent of unreported government operations.

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

The level of extra-budgetary expenditure (EBE) in the 2002-2004 period is in the region of 10% of total Government Spending. However, EBE is included in the Annual State Budget as separate annexes, and are approved by Parliament. They are therefore not "*unreported*". The general monthly budget execution reports provided by the MOF to Parliament include data on EBE.

The information on the Government Website, however, is limited to one line summaries. Therefore, the data available to the public might be considered inadequate.

[11] Financial assets are included in budget execution reports but not in the budget law. Software to produce financial assets is to be an output of the PFM project that will generate the information for the budget document.

SSIB & CIBMA. The budget for these two Funds are prepared and approved independently. The MOF has no direct role or oversight although it will monitor the "transfer" from the state budget to the two Funds. Nonetheless the budgets are approved by Parliament and are included in the MTEF process. Given that the Funds represent an increasing share of total expenditure (24.6% in 2002, 23.9% in 2003, and 32.9% in 2004-, this is a significant and important area... The Financial Information systems within the two Funds are independent of the MOF. They do report monthly to Government, and this information appears on the Government's website.

LG. LG budgets are not required to be approved by Parliament (although, as for SSIB & CIBMA, the transfers to LG are approved as part of the State Budget). Rayons and Municipalities approve their own budgets.

SOEs. There is no provision in the State Budget for SOEs receiving any direct financial assistance. To date there is no evidence of the Government making financial contributions in respect of "failing" SOEs. However, there is a risk of fiscal loss, in the event of bankruptcy, as Government assets will be sold to meet liabilities.

JSC. There is no provision in the State Budget for any financial contributions to JSCs, which are partly owned by the GOM.

In terms of improvement the FMIS development does envisage that the SSIB & CIBMA will interface with FMIS and will be required to use the new chart of accounts.

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

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

The majority of Donor funding (particularly credits) appears to be included in the budget and in the MTEF.

The MOE monitors donor technical assistance (TA) projects and has supplied a schedule which lists some 600 such projects. The financial information provided indicates the "range of years" over which project implementation is planned, and has been reported to Parliament since 2000

A score of B is allocated.

GOM coverage of those areas outside the "State Budget" is good and improving.

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

PI-8. Transparency of Inter-Governmental Fiscal Relations

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

Inter-budget relations are regulated by the following Acts:

- Law on State Budget System and Process (LSBSP) (no.847-XIII of May 24, 1996)
- Law on Local Public Finance (LLPF) (no.397-XV of October 16, 2003), developed based on the Law on Local Public Administration (LPA) (no.123-XV of March 18, 2003).

The allocation of transfers by the central government is based on articles 9, 10 and 11 of the LLPF. Transfers are based on the gap between expenditure needs (based on population and a per capita expenditure norm) and the amount collected from the taxes assigned to LGs. There are provisions for high revenue collecting LGs and those with high specific expenditure.

Art.10 regulates the formula for determining the transfers between the State budget and budgets of second-level ATUs, based on transparency and objectivity of distribution of resources. According to Art.21 of the LLPF, the appointed and authorized bodies of the second-level ATUs shall approve the limits of allocations from the general government revenues, the share of allocations from real estate tax and the amount of transfers to the budgets of ATUs.

The transfers stipulated in the legislation between the Central Government and the ATUs are applied in practice as the legislation is strictly adhered to[12]. All inter-governmental fiscal relations are regulated by primary legislation and its application is enforced very effectively. These transfers are analysed in detail in the MTEF documentation.

Score A

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

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

Art.20 of the Law instructs the executive bodies of the first-level ATUs to submit the draft budget for examination by the local council not later than November 15. Art.21 of the LLPF instructs the executive bodies of the second-level ATUs to submit the draft budget for examination by the respective authorities not later than on November 1. The first- and second-level ATUs, according to Art.20 and 21 of the Law, shall approve the local budgets before December 10 and 15 respectively. Taking all of this into account, the sub-national government bodies receive information about the transfers to be allocated to them before the beginning their budget deliberations.

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[12] This indicator does not cover transfers from the ATUs to lower level local administrations. The World Bank reports that there are problems relating to the transfers from the higher to the lower level of local government.

Based on the provisions of Art.15 of the LSBSP, the Government submits for examination to the Parliament the draft State Budget Law before October 1. According to Art.31, the Parliament shall approve the Law on State Budget before December 5 of the current year. If necessary, according to Art.24 of the LLPF, the authorized body of the ATUs shall adjust its budget to the provisions of the State Budget Law within 30 days from its publication.

Score A

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

According to Art.29 of the LLPF, the reports covering the execution of budgets of ATUs are approved by their authorized bodies, and no later than February 15 of the year following the reporting year, are submitted to the MOF for their inclusion in the report on the execution of the national public budget.

Score A

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	Score A (i). The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. Score A (ii) SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. Score A (iii) Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. Score A

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

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

The Department of Financial Analysis and Regulation (DFAR) was established within the MOF in 2004 specifically to monitor the financial performance of State Owned Enterprises (SOE) and Joint Stock Companies (JSC) in which the government has a stake (not just a controlling stake). A database has been established and is maintained by the National Statistical Bureau, which collect quarterly data according to financial reports of the respective business entities. There are 325 SOEs and 353 JSCs registered on the database as at January 2006. The DFAR is responsible for financial analysis and produces a report for Government every 6 months containing a wide variety of financial information and analysis. This includes data on profits/losses, commercial prospects of the Organisation, Debtors, Creditors, etc. No recommendations on action required are made to the Government. At present the management of such public assets is performed by line ministries based on the decision of the Government No 833 of 9 September 1997. There is no requirement for SOEs to be subject to an independent external audit. Finally no annual consolidated overall fiscal risk report is produced.

Score C

In terms of improvement there is a draft auditing law in Government which will require all SOEs to be subject to an independent external audit. Currently SOEs are included in the mandates of the COA, but this does not mean that audits are carried out each year. Additionally the MOE is undertaking a review of all SOEs to consider the future scrutiny and reporting arrangements.

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

Transfers to sub national government (Rayons, Municipalities, CIBMA and SSIB) are strictly controlled through the monthly cash limit process and cannot be exceeded without Government approval. Rayons and municipalities raise additional revenues to add to the government transfer. However, the MOF is informed of the individual budgets approved and can monitor actual performance. The Territorial Treasuries will only allow local governments to spend actual resources collected. Furthermore each local government must provide details of total "arrears" not paid at the end of each month. The CIBMA and SSIB also provide monthly information on expenditures/revenues to the MOF for inclusion on the government website.

There is, therefore, the possibility of some fiscal risk if the SN bodies "commit" expenditure beyond the resources they have available. The IMF has raised particular concerns about the financial stability of the SSIB and has asked the Government to develop a plan to put it back on a sustainable path. Moreover suppliers are unlikely to give unlimited credit and the regular flow of data to the MOF provides a monitoring capacity – which act as a deterrent to maladministration. However, no annual consolidated overall fiscal risk report is produced.

Score C

The steps taken so far by the GOM represent significant progress. It is important that they continue the progress by being much more pro-active in maximizing the Public Assets currently utilized by SOEs and in assessing the risk of fiscal loss. The absence of audited accounts, a consolidated overall fiscal risk report and the IMF concerns on the SSIB means that the score on both criteria of this PI is limited to C.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	Score C (i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. Score C (ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete. Score C

PI-10. Public Access to key fiscal information

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

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	MTEF and Budget on website
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Monthly on MOF website
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Budget execution report presented to Parliament by June 1 in the following year. There is no formal timing to make the budget execution report publicly available. However, Parliament has to take a decision which should be published.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate	Summary audit report on use of public funds in the preceeding year is presented to Parliament although there are no deadlines

means within six months of completed audit.	set in the Law. The 2004 Budget Execution report for 2004 was published on 26 August 2005.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Quarterly publication
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Information on all primary service units is available at both State Treasury and Local levels (Territorial Treasuries) and can be produced on request

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

3.3. Policy-based budgeting

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

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

There is a well-defined budget calendar (in the Organic Budget Law) for the preparation of the MTEF and Budget as a combined process which is issued as a numbered Government Decision from the Prime Minister. For 2004, this was dated 31 December 2003, effectively starting the budget calendar on January 1.

The main elements and dates are:

Element	Dates
Medium Term Expenditure Framework (for 3 years)	
Macro-financial framework	By February 25
Cross-cutting expenditure issues	By February 25
Sector analysis and strategic expenditure plans	By March 20
Expenditure Plans and Resource Ceilings with completion of the MTEF document and submission to Government for examination and approval	By April 5
The Draft Budget for the following year	
Formulation of methodologies on elaboration and presentation of budget proposals	By April 20
Submission of development forecasts of sectors and territories in medium term perspective according to the forms proposed by Ministry of Economy	By May 1
Elaborating and presenting budget proposals	By June 1
Submission of the updated forecast of the main macro economic indicators for the following year	By June 1
Examining the budget proposals and elaborating the preliminary estimations of the draft budget	By July 1
Coordinating the estimations of the draft budget for the respective year with the central and local governments as well as the draft law of the state budget for the respective year	By July 20
Completing the draft budget law for the respective year and presenting it to Government	By August 15

From 16 August to October the Government discusses the draft budget which is submitted to Parliament on 1 October and it is approved before December 5.

The methodology for budget proposals is the key guidance document in budget preparation. It give details on the MTEF approval, with annexes on ceilings by functions and spending units, and the to macroeconomic indicators annexed to the document. Guidelines are provided for budget proposals on revenues (asking for proposals for 2006 and estimations for the next two years, including description of each tax and the basis of estimation. It also provides guidelines for expenses - with descriptions on how certain expenses should be estimated (e.g. expenses on salaries should be increased because of GoM decision on salaries increase....). An annex provides macroeconomic indicators for the next 3 years (GDP, price indexes, etc.) with other annexesoutlining methodological norms on formulating of budget proposals for the coming year based on programmes and performance with explanations as to what the programmes are, and how to submit and ground the budget figures based on programmes, as well as the tables to be filled in.

Full adherence to this timetable indicates a Score of A. However, in 2005, the budget and the MTEF (containing the budget ceilings) were considered and approved by the Government at the same time, in September. Thus, the budget instructions circulated earlier contained draft ceilings, which had not yet been approved by Government. The deviation from the published timetable marks the score down to a B.

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

The document (referred to in (i)) lists the members of the Stakeholder Group to be chaired by the Minister of Finance. For the 2004 budget process, the members were: Advisor on economic issues to the President; Deputy Minister of Economy; Chief of Finance and Economy Department, State Chancellery; Minister of Education; Deputy Minister of Health; Prime Deputy Minister of Labour and Social Protection; Prime Deputy Governor, National Bank of Moldova; Director General of Statistics and Sociology Department; Head of National Insurance House; Director General of the National Company of Medical Insurance; Chairman of the National Confederation Chairman of Confederation of Trade Unions of Moldova; Chairman of the Confederation of Free Trade Unions "Solidarity"; Chairman of the Association of the Rayon's Chairmen and Advisors; and Chairman of the Mayor's Association and Local Collectives of Moldova.

The document also assigns activities for formulating each element of MTEF and budget preparation to responsible authorities to carry them out as well as the beneficiary authority of each activity. Activities for budget preparation are listed in the calendar above.

A similar argument as presented in (i) above reduces a potential score A to a score B.

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

Although the publication of the MTEF has been delayed in two of the three years since its inception, once for the delay of an IMF mission by one month, and second due to the election of a new Government (which caused a slippage by 2 months), this has not affected the budget preparation, approval and scrutiny process timetable. The last four State Budget Laws were approved as follows:

a) for 2003 – on November 15, 2002, Law No. 1463-XV
b) for 2004 – on November 27, 2003, Law No. 474-XV
c) for 2005 - on November 11, 2004, Law No. 373-XV
d) for 2006 – on November 16, 2005, law No. 291-XVI

Score A

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

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

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

The MTEF document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, and the deficit and its financing. However, the current MTEF document is independent of the previous document without reference to previous forecasts.. Expenditures are broken down by economic categories and by sector (which may correspond to a ministry if a sector is covered by a single ministry such as health), but may also encompass several ministries (as in education sector). The first year of the MTEF and the budget differ to the extent that the updated forecasts diverges from the earlier MTEF forecasts, although the MTEF estimates and annual budget ceilings were identical as they were completed together.

Score A

(ii) Scope and frequency of debt sustainability analysis

The MTEF document includes a detailed exposition of debt management broken down into external and internal components. A General Division of Public Debt has been established in the MOF. The balances of internal and external debts are maintained on monthly basis. The DSA is performed annually as part of budget preparation.

Score A

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

The MTEF document presents an analysis of the existing situation, priority measures identified for reform and implications for resource allocation for the main expenditure sectors. The translation of these programmes to expenditures allocation is through altering the share of the programme (either in terms of its share of the total or share of GDP) to reflect increasing or decreasing priority. This has been based on the strategic planning of expenses in pilot sectors, starting in 2002. Projections for 2003-2005 covered education and health care representing 31% of the total volume of public expenditures; projections for 2004-2006 and 2005 -2007 were expanded to include social assistance and covered over 60% of the total volume of public expenditures. In the 2006 -2008 MTEF, the sectoral presentations are expanded to included agriculture..

Objectives, and goals are set out in greater detail along with total expenditure allocations for each programme within these sectors equating to strategies linked to EGPRSP priorities which covers over 60% of expenditures. These are analysed with respect to reform actions within the programme, the consequent budget management, financial implications and monitoring indicators. Costs are calculated for each programme from detailed costs projections produced from the "bottom-up", analyzing each year separately. All sources of financing are included: state budget, ATUs, special means, credits and grants provided by external donors, as well as capital investments. Detailed calculations are presented within the draft on annual budget law but not in the MTEF which is considered to be a strategic document where such a level of detail is inappropriate.

The MTEF sector strategies are driven by the MTEF Team and Budget Synthesis Department with some sector ministry input, and reflect the much stronger analytical capability in the MOF than in the sector ministries, who would not be able to produce such a sector strategy independently. This reflects a weakness in the sector ministries in planning and budget preparation. The MTEF has yet to develop this capacity in LMs. Nevertheless sector ministries contribute to the development and promotion of sector strategies though technical working groups involving senior staff and specialists from LMs..

Score B

iv) Linkages between investment budgets and forward expenditure estimates.

Each investment priority is analysed as to its financial requirements and available funding over the construction phase. Projects are selected according to their strategic priority (e.g. the oil and gas complex) and (additional) projects are planned as (additional) funds become available. Funding from non project domestic sources is almost a residual after recurrent requirements have been satisfied, but if resources for key capital projects are not available, recurrent expenditure will be cut to ensure funding for these key projects. Data on outstanding balances are used to project the volume of investments for future years with an emphasis on completion of projects that are in an advanced stage of construction.

Score B

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

3.4. Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

Tax revenue is collected through two separate departments – State Fiscal Service and Customs Service – each with their own law *viz*, Tax Code (April 1997 as amended) and Customs Code. Each Law sets out in detail administrative procedures and the coverage of taxes under its jurisdiction. The Customs Code specifies a generic category of exemptions (goods going to light industry enterprises (with the exception of those that are subject

to excise taxes), classified under the customs category "active improvement." The list of such enterprises is determined according to regulations approved by the government. The other exemptions in the Customs Code mirror international practice. Exemptions under the Fiscal Code are based on standards found internationally.
Score A

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

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

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

All the tax legislation and its changes are published in Official Monitor before entering in force. The latest practice is to publish all the tax legislation changes far in advance (e.g. 4-6 months before they will become effective, and usually the effective date is new fiscal year). All official monitors of Government are easily accessible, moreover, there is a legislation web-site recently launched by the Ministry of Justice (www.justice.md) containing all the legislation up-to-date, so that the users of information can get easy access to information.

The Tax Authorities carry out regular tax awareness campaigns throughout the country via the media (print, TV and radio and own website) and conduct workshops and visits to enterprises, as well as issue official explanatory letters on application of certain provision of the law (usually for the issues raiised in many official requests received from taxpayers. Customs Services publishes a newsletter (Customs Courier) which provides information on changes to legislation. The Customs General Director has open meetings once a month and the managers of customs bureaus meet the business community monthly.

A score A has been assessed based on the information supplied by the Authorities but time limitations precluded verification by tax payers.

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

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

Appeals under both jurisdictions can be dealt with administratively in the first instance though internal process and if not satisfied by recourse to the Court governed by the Civil Code of Practice[13]. There is consideration of setting up an independent appeals tribunal in order to avoid having recourse to the civil court and a draft law in being determined. Although the effectiveness of appeal mechanisms has improved over the last few years, there is scope for improvement by making the internal processes of Tax and Customs authorities more user-

[13] In 2004 there were 4,452 appeals heard in the court against cancellation of input VAT, 704 of which was initiated by tax payers (winning 177 cases) and 3,713 initiated by the tax authorities (winning 2,501). In 2005, there were 2,589 appeals heard in the court against cancellation of input VAT, 441 of which was initiated by tax payers (winning 96 cases) and 2,148 initiated by the tax authorities (winning 1,391). Customs states that there are 20 to 30 appeals annually out of 200,000 declarations (including export and transit declarations).

friendly in cases of disagreements. Justice reform, particularly related to court independence, will also improve any negative impact of the effectiveness of appeals.

Score B

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

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

(i) Controls in the taxpayer registration system.

Identification of taxpayers in the State Fiscal register is established according to the Fiscal codes determined by the Fiscal Authorities or by the Ministry of Informational Developmnet. This means that every person receiving income or making taxable payments is required to be issued with a certificate assigning a tax indentification number (TIN). Unregistered persons (sole traders) have an unique ID code which is used as fiscal code. Any person required to submit a declaration, a report or other document must indicate the TIN on every such document in order to be identified. The Fiscal Authorities must indicate the taxpayer's TIN in all notices and demands sent to the taxpayer. In business and other transactions, the TIN must be included on documents. The taxpayer registration data is linked with the treasury, so that all the revenues collected are assigned to specific taxpayer using TIN. Moreover, all the payment made by treasury are verifyed so all the data (including bank accounts) are consistent with Tax Service's database.

Score A

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

The liability for violations of income tax legislation is set out in various articles of the Fiscal Code covering: calculation of penalties and interest; assessable penalties; waiver of penalties; penalty for failure to file income tax declaration; penalty for failure to pay income tax; failure to file correct information; penalty for failure to pay estimated tax on due date; penalty for negligence in preparing returns or other required documents; penalty for wilfully providing false or misleading tax information; penalty for failure to provide a TIN; and criminal tax violations. There are different tariffs for different violations: if no tax declaration (article 260 of the Fiscal Code) a fine of 5% of the amount of tax payable for each month of delay but not to exceed 25% of assessment; for non payment of tax (Article 261) 2% of tax not paid for every delayed month in payment up to a maximum of 24%. Arrears are charged on a daily basis at 16% annual rate. If a tax payer agrees with fines assessed, there is a reduction of 50% (article 234) provided that:

a) the tax payer has no arrears as of the date of decision on the offence and repays at the same time
b) the taxpayer repays the amount of taxes, fees, penalties and or 50% of the fines indicated within 3 working days from the date of receiving the decision

c) the taxpayer presents, within the time limit, documentary proof of voluntary repayments in a) and b).

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

Section X of the Customs Code covers infringement of customs regulations and liability for infringement; proceedings for infringement and their review. Depending on the seriousness of the violation, fines of up to 100% may be levied with clear ranges of tariff set out for each offence. Such high penalties are effective to stimulate compliance. Should the customs regulations be violated, an additional punishment may apply in the form of license revocation or suspension.

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

For 2004 penalties amounted to 40% of the value of assessed tax liability resulting from audit and in the first 9 months of 2005, this figure amounted to 80% of assessed tax liability.

Score A

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

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

Each territorial tax office has an audit directorate that carries out audits using risk assessment software that identifies companies for audit. The audits usually are done using old traditional practice of inspections or so called "controls". Although there is a formal plan related to scope of audits (full inspection for a certain period or targeted inspections related to certain taxes), there is no "audit plan" as it is understood under modern audit concepts. Reporting usually is done in form of statement, specifying all the irregularities found and consequences (i.e. penalties, fines or administrative procedures). Risk assessments is used by State Tax Service to identify companies for audits, but there is no risk assessment methodology for audits to be applied during specific audits of companies. In 2004, just under 5.4% of tax payers were inspected mainly covering document verification (27%) and verification by topic (such as VAT and Excise Tax\ refund) (44%). These audits resulted in increased tax collection and penalties of 307 million lei. In the first 9 months of 2005, 4% of tax payers were audited resulting in an additional 230 million lei.

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

The current audit methodology and reporting is the same as used by tax authorities. However, Customs has installed ASYCUDA WORLD[14] which is a revamped model of ASCUDA ++ with the improved functionality. ASYCUDA is an automated documentation system that is filled in on line that will assess taxes due based on the information (Harmonised System Code, description) on the imported good. All 15 Customs stations are on line. A risk

[14] The first country to install this version.

assessment department was established in November 2005. The risk assessment module under ASYCUDA is being set up with international TA. Prior to establishing this risk assessment module, customs shared data with other law enforcement agencies to develop a list of high risk importers. Fifteen percent of all declarations have had post clearance audit.

Score C

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

PI-15 Effectiveness in collection of tax payments

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

Arrears on direct taxes are not maintainted in such a way to satisfy this dimension. The ratio of historical debt collection cannot be calculated because the tracking system is based on accumulated liabilities rather than by the time occurred and hence time profile, as determined by article 179 of title V of the Fiscal Code. There is a difficulty in scoring because no information is available. It may be reasonable to make an assumption based on the fact that in case of significant delays the authorities have enough powers to get due amounts, including seizure of assets, which would point to low arrears.

The payment of import dues before customs clearance minimises the possibility of accumulation of arrears to the State Budget at “customs fees” chapter. However, there are historical arrears, formed as a result of post-clearance audits, for which penalties are continously accrued. Approximately eighty percent of arrears are historical arrears and penalties accrued. The share of these arrears in the total amount of the taxes and fees collected is insignificant according to the relevant authorities.. However, it is not certain that this would fulfil the scoring requirment of an A score.

Score B.

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

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

Starting 1 January 2006, import/export dues are paid to a central open account of the State Treasury at the National Bank of Moldova, in total amounts (all levies together). As soon as the payment is made, the information is available on line to all 15 Customs Bureaus and allows customs clearance operations to be performed. Befor the implementation of ASYCUDA WORLD information system, taxes and fees were paid separately for each customs bureau and type of payment through their daily transfer to the State Treasury.

Score A

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

Reconciliation between the tax authorities and ST on revenues is performed daily at central and territorial level (e.g. ST and Central Tax Office, Territorial Treasury and Tax Office) - the reconciliation is related to taxes collected. On monthly basis, it is done only by Territorial Tax Office, and reconciliation is concerned with the data held by Central Tax Office and Territorial Tax Offices. This reconciliation is related to accrued taxes (tax assessments), payments (already reconciled with treasury), and arrears.

Score A

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	Score B+ (i) The total amount of tax arrears in the two most recent fiscal years was 75-90% and the total amoint of tax arrears is significant. Score B (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. Score A (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. Score A

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

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

The overall budget strategy is based upon the level of estimated revenues determining the affordable expenditure levels. The MOF assesses the monthly revenue flow for the year ahead and determines monthly cash limits for LM and LGs (and transfers to CIBMA and SSIB). LMs will notify their institutions of the annual budget approved, and requests monthly expenditure projections. It is unlikely that all institutions' requirement can be met, but nonetheless they have the opportunity to plan their flow of expenditures throughout the year. The LMs make decisions for their institutions and forward the data to the MOF which will be accepted so long as the overall LM Cash Limit for each month has not been exceeded. The subsequent monthly limits are then entered into the ST system by institution and by detailed economic classification. They are rigidly applied and cannot be exceeded.

If institutions require any changes to the set limits they have to seek approval by the LM and the MOF, and this is a very cumbersome process. It does not, however, impact upon compliance with the predictability indicator. The ST reviews the cash flow forecasts monthly from January to October and weekly in November and December (when traditionally a late surge of payments occurs).

Score A

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

The process described above gives budget managers of LMs an expenditure plan at the beginning of the fiscal year – one in which the manager has provided all the detailed analysis. It is, therefore, reliable and for the well-organized budget manager it should be an efficient process – albeit inflexible if expenditure needs to be changed. The Ministry of Education reported that 2005 was the first year that the Teachers Vacation Allowance had been paid on time. This is an indication that the cash flow forecasting is improving, which in turn increases reliability for expenditure commitments.

There is scope within the treasury systems to enter contract commitment details. However, this does not enable financial commitment data to be entered in each month(s) when the expenditure is expected to be incurred. The ST acknowledges that this is a serious weakness in terms of the usefulness of the information. Nonetheless authority to enter into contracts is realized through this process.

Score A

This is an area where the proposed FMIS development will offer significant improvement.

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

The present arrangements allow the MOF to impose reductions in monthly cash limits, in the event of a serious revenue shortfall. . Priority for payment is established centrally – with staff payments and debt repayment taking precedence. There are clear guidelines for the priority areas. The MOF plans to give the LMs' responsibility to determine how reductions are to be made in individual institutions.

ST is aware that any reductions to monthly cash limits imposed by the MOF are extremely disruptive to LMs and have made considerable and recent progress in avoiding reductions. In 2005 reductions were not necessary, reflecting a greater confidence within the ST in cash flow forecasting and an acceptance of conservative forecasts.

Score A

The GOM operates a very rigid and controlled approach to the establishment and enforcement of cash limits. In terms of modern financial management it is too severe and administratively cumbersome. Nonetheless the current arrangements fulfil the specific requirements of this indicator and a maximum score has been allocated.

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	Score A (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. Score A (ii) LMs are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. Score A (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. Score A

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

(i) Quality of debt data recording and reporting

GOM is using DMFAS software, although it does not cover Domestic Debt. The data on state debt is reported daily. There are acknowledged problems with staff turnover and staff training (mainly because the private sector offers more attractive salaries). Some consequential, but relatively insignificant, reconciliation difficulties have arisen. "Excel" developed software is used for reconciliation and this is not ideal. Reconciliation is prompt and updated on a daily/weekly basis.

Score B

The latest version of DMFAS software is currently being installed. It will enable domestic debt to be covered, thus discontinuing the use of the "Excel" software.

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

Cash flow management is undertaken by the ST – using a basic Excel spreadsheet. The ST does not cover SSIB & CIBMA. State budget transfers to the SSIB and CIBMA are included as are Extra Budgetary Expenditures/Revenues. ST receives regular information on the debt position, repayments due, etc and on donor grants managed through Project Implementation Units. No overdraft facilities operate and cash balance information is received by the ST daily from the NBM and from three Commercial Banks in respect of State, Rayon and LG Bodies. Email is used to communicate this data.

Score B

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

Existing legal framework was established in 1996, with the MOF being the sole authority for the issue of loans and guarantees. There are weaknesses in the area of guarantees and the determination of contingent liabilities. The MOF have addressed these weaknesses with the assistance of an external consultant and significant reforms are in the pipeline. Limits on state debt (including internal and external state debt as well as state guarantees at a given moment) are established by the Annual Budget Law.

The MOF have also drafted new Public Debt legislation and this has been presented to the Government and feedback is awaited. The new law adopts EU "Basle" standards and IMF methodology. It proposes that the debt of all SOEs and JSCs (51%+ Government owned) will be included, and that MOF has to authorise these organisations to incur debt.

A score of B has been allocated. The area appears to be very well managed, with weaknesses understood and being addressed. There should be no concerns in the future if the new legislation is implemented.

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	Score B (i). Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually. Score B (ii). Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. Score B (iii). Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees and always approved by a single responsible government entity. Score B

PI-18 Effectiveness of payroll controls

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

Basic rather than comprehensive personnel files are maintained by each LM and institution. Files should contain all relevant data, including the initial appointment form and a photograph of the employee. The PEFA assessment uncovered no evidence that personnel databases were being maintained.

Major LMs use computerized payroll software. The CRS indicates that 60-70% of institutions operate computerized payroll records, although they could not indicate the level of use of payroll software packages) with the balance using manual methods. Each institution has responsibility for its personnel and payroll records except where the Mayor's office manages the accounting records of Health and Education primary institutions. In the two LMs examined there was no direct link between personnel and payroll records.

The procedure is that full documentation of all changes is maintained in personnel files. However, it was not possible to verify or take a view on the quality of implementation. There is no evidence that payroll is checked against the previous month's payroll, or against personnel records.

Score D

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

Interviews took place with the MOF and the Ministry of Education. Both were confident that their records are updated promptly. However, it was not possible for the practices in all LMs and institutions to be examined – and the likelihood is that MOF & MOE may be above average performers, given their size and importance. There is no reason to suspect that practices are poor, but there was no possibility of verification. In the circumstances a score C has been allocated.

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

Central ministries effectively need Cabinet approval to increase the staff establishment. Most other staff establishments are determined by volume figures e.g. in schools a Pupil Teacher Ratio is in operation.

The procedures set out for the maintenance of personnel files and the communication of changes to payroll are clear and, if followed, should establish an audit trail. It must be acknowledged, however, that the scope for adequate internal checking in small institutions is limited.

Score C.

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

Majority of staff have their salary paid directly to their bank account, which is good for audit purposes. The CRS checks all payrolls when an institution is visited (once every two years) and this is updated from the previous visit. This includes verification with the personnel records. There have been isolated cases of “ghosts”. The Ministry of Education confirmed that a “ghost” worker had been discovered in a primary school last November.

The CRS, in undertaking their responsibilities, does not appear to adopt a systems audit approach. Such an approach to payroll, and indeed to other areas, would be beneficial for the types of control work they are undertaking. The Human Resources Section within the MOF undertakes specific exercises to identify “ghosts” on the pension register.

Score B

There are no centralised personnel or payroll facilities. These staffing functions are completely decentralised. The procedures rely heavily upon the integrity of the head of the institution and the individuals responsible for human resources and payroll. The larger the organisation, the greater is the scope for internal control checks. The visits of the CRS also provide a level of audit. Nonetheless, it is extremely difficult to give the degree of assurances implied in the PEFA indicator score. The arrangements that exist appear to be sound and secure, and are fairly well implemented in the limited areas examined. The score of D and 2 Cs for the first three criteria reflects that view, and it is not possible to score higher. In terms of future improvements, the FMIS proposals include a Human Resource Management and Payroll module and it is essential that this development is proceeded with.

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	Score D+ (i). Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. Score D (ii). Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments. Score C (iii). Controls exist, but are not adequate to ensure full integrity of data. Score C (iv). A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise). Score B

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

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

The World Bank Country Procurement Assessment Report 2003 (CPAR) reported that Single Source Tendering (SST) is happening "far too often, often in contravention of the procurement law" (p. vii). In 2001, it reported 67% of all contracts used SST.

Reasons for the high incidence of SST provided in the CPAR included:

- Lack of knowledge among procuring entity staff of the Procurement Law;
- Various forms of influence on the procurement process by the central Government or local authorities to encourage Single Source Procurement (SSP) from a specific local company;
- Limited market concentration - limited number of suppliers (monopolies);
- Problems with the execution of the Government Budget at the time of preparing the diagnostic- chronic cash shortages forcing procuring entities to delay procurement until the end of the fiscal year and thus forcing them to choose the fastest procurement method possible.

According to data provided by the Agency for Material Reserves, Public Procurement and Humanitarian Aid - the Procurement Agency (PA), total public procurement in 2005 amounted to 3,202 million lei of which 57% of contracts by value and 22% by number of contracts were procured through open competitive bidding.[15] The main reason for the reduction in SST is that the PA has been less willing to grant permission for sole sourcing than it was previously.

Procurement Procedure – 2005[16]

Procurement Procedure	No. of contracts	Percentage	Lei (million)	Percentage
Open competitive bidding	5,244	22%	1,816	57%
Shopping	16,205	69%	1,050	33%
Sole Source	1,871	8%	355	10%
Total	23,320	100%	3,202	100%

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

The Law requires procurement working groups and outcomes to be submitted to the PA within 5 days after conclusion of the contract. The documentation provided to the PA follows a standard format. The Assessment Team did not have time to verify the underlying data.

Score B

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

The justification for the use of less competitive procurement methods are justified in accordance with clear regulatory requirements[17]. However the information gathered from interviews pointed to a general lack of awareness of key changes to the Moldova's procurement regulations. As noted in the DFID FRA "apparently the major problem remains that the procuring entities are not consistently applying the law, and that this is attributable to a lack of training and insufficient oversight in the form of internal controls".[18]

A score of C has been allocated to this dimension.

(iii) Existence and operation of procurement complaints mechanism

The legal provisions for complaints are, in general, clear and provide for oversight by the PA. There is a more general concern regarding conflicts of interest in the activities – in particular its role in procuring material resources for the Government. The PA is understaffed when

[15] According to Article 23 of the Procurement Law the maximum size of contracts for Shopping (min 3 quotations) is: for goods and services - 100,000 Lei and for works – 1,000,000 Lei. These are the minimum size contracts for open competitive bidding.
[16] This data excludes natural monopolies such as gas and electricity utilities and land line telephones.
[17] Article 24 of the Procurement Law.
[18] DFID FRA p 46.

compared to equivalent agencies in other countries, which is likely to reduce effectiveness both as an institution of oversight and capacity building. Given the present institutional arrangements a score of B has been allocated to this dimension.

The Procurement Law is presently being redrafted (supported by World Bank funded consultants) to bring it in line with international best practice. Key issues being addressed are to set the PA up as a separately constituted oversight body and modernizing terms which exist in the present Law. Standard bidding documents are also being developed.

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

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

(i) Effectiveness of expenditure commitment controls.

GOM operates a rigid control system in respect of expenditures (described in PI-16, dimension (i)). If the need for in-year expenditure adjustment arises, the institution must seek LM and MOF approval to change monthly limits (which do not involve an increase in the overall budget). If an increase in the overall budget is requested, subject firstly to LM and MOF approval, a request to Government has to be made – both these approval procedures are administratively cumbersome and time consuming.

Commitment Data The Treasury systems have the capacity to hold contract details, and institutions are required to supply all contract information to its Territorial Treasury so that the data can be entered. However, it is not possible to enter the detailed expenditure commitment which will arise in each month. In financial management terms this is a major weakness. It also represents a weakness regarding this indicator in that, potentially, cash limits in a future month could be exceeded as the entry of the contract details will not reveal this position. However, the ST will not allow the Cash Limits to be exceeded, so the Institution concerned will need to make adjustments in other expenditure areas to accommodate such problems. Moreover, as indicated in PI 4 the State Treasury does receive monthly data on the level of arrears, so it is a position to monitor commitments

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

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

The internal controls/rules that are in place are comprehensive and, in the absence of an efficient FMIS, must be considered as relevant. The rigidity of the monthly cash limits and the cumbersome manual processes for seeking approval to changes, are two key areas where the control is excessive. In terms of an understanding of the internal rules, the Combating Crime & Corruption Unit (CCCU) staff “follows-up” on investigations. They offer seminars to explain the purpose and outcome of the investigation. Importantly they also endeavour to point out the weaknesses in processes and/or implementation of processes that has been identified within the institution. These seminars are, they believe, popular and they undertook 30 in 2005. The PEFA Assessment Team can see no reason why the internal control/rules should not be understood, but did not have the time to verify this aspect.

Score B

Once the GOM proposed FMIS is place, then it should be possible to remove all of the current excessive controls. FMIS should enable a much more flexible approach, without undermining overall MOF control of budget and cash flow.

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

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

The CRS has the power to impose fines on individual civil servants for failure to comply with proper procedures. In 2004, 621 fines were imposed and 190,000 Lei was collected. This vehicle should act as a deterrent against maladministration and malpractice. The types of problems identified by CRS do not suggest that there is widespread malpractice or maladministration – many of the issues are of a minor nature.

In the time allocated to the PEFA exercise there was no opportunity to verify the extent of compliance in the field. The Assessment Team has relied upon feedback from the inspection agencies.

Given the fiscal difficulties experienced in recent years, it is not surprising that the GOM have adopted a very strict cash control approach, and they should be commended for delivering this secure and certain expenditure control position. There is also evidence of a desire within the MOF to move on, and embrace more flexible and effective methods of budgetary control. The FMIS development is required in order to remove many present inefficient processes and to provide budget managers with the financial management tools they require. The scores under the specific indicator are reasonable – but it must be the aim of the GOM to have better scores – and provide high quality financial management information.

Score C+

	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	Score C+ (i). Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure with minor areas of exception. Score B (ii). Other internal control rules and procedures incorporates a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. Score B (iii). Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern. Score C

PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

Small internal audit units have been established in the Treasury, State Tax Service, Customs and National Social Insurance House, all of which are at an early stage of development. There are no ex-ante assessment of the control framework of ministries and other government agencies, which is an essential role of a modern internal audit function. The CRS performs ex-post verifications and compliance reviews of the execution of the budget. Some limited systems work is carried out by CRS and the CCCU (see P1-20 above).

Score C

In March 2005 the EU and the Republic of Moldova ratified an Action Plan to support a range of priority activities required to further integrate Moldova into European economic and social structures. Included within the Action Plan is a commitment to[19]:-

- Develop a strategy and policy paper for the public internal financial control system (managerial accountability and internal audit);
- Establish legislative framework for public internal financial control
- Gradual harmonization with the internationally agreed standards (IFAC, IIA, INTOSAI) and methodologies, as well as with EU best practices for the control and audit of public income, expenditures, assets and liabilities.

The CRS has been tasked with leading the introduction of a modern system of internal control and internal audit in the public sector and, with the support of the donor community, is presently developing a medium term strategy with activities to develop the legal and normative base, develop methodologies and build capacity.

(ii) Frequency and distribution of reports

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

(iii) Extent of management response to internal audit findings

The focus of the activity of CRS is on compliance with existing legislation and in many cases requires resolution by regulatory or judicial bodies. Action on the findings of CRS is prompt and comprehensive. The CRS monitors responses closely and during the mission provided statistical data on its work during 2004.

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

The current approach to financial control is similar to other CIS countries. The implementation of the EU/Government Action Plan provides an incentive to reform the institutions and functions of internal audit over the medium term.

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

[19] EU/Moldova Action Plan para. 42

3.5. Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

The ST is organized around a single Treasury Account maintained by the NBM, where all central government revenues and expenditures are recorded. There are, however, separate accounts for the SSF and CIBMA, as well as various foreign currency accounts. Territorial Treasury Accounts are maintained at Commercial Banks – because the NBM does not have a network of local branches. All Treasury transactions are reconciled with bank records. Regular crosschecks of internal procedures are undertaken within the CT. Data reconciliation is specifically included in the Annual Reports on Budget Execution to Parliament. However, the IMF still has concerns about the consistent operation of the Single Treasury Account, and discussions are ongoing.

Score B

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

The ST manages the unidentified revenues suspense account and gave an assurance that all amounts are cleared within 3 days of receipt. Traditionally this can be a major problem area, but it appears to be well managed in Moldova. The MOF informed us that there are few other suspense and balance sheet accounts and there is a requirement that these accounts are reconciled annually at 31 December. . There are well documented procedures for advance payments and there is no evidence to suggest that there were any problems. Within the scope of the PEFA Assessment, it was not possible to verify the extent of compliance with the procedures.

Therefore, a Score B has been allocated

	Minimum requirements (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	Score B (i). Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of the month. Score B (ii). Reconcialation and clearance of suspense accounts and advances takes place annually within 2 months of the end of period. Some accounts have uncleared balanaces brought forward. Score B.

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

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

The HAD of MOE estimates that the GOM receives approximately 170m Lei in assistance which can be described as in-kind. Of this aid, nearly 50% is estimated to be foodstuffs. There are specified procedures for dealing with the acceptance of such aid and its distribution. These procedures include a Central Commission and Commissions at Rayon and Village levels. There are no procedures for accounting for the benefit that has accrued to individual institutions (whether in the public or private sectors). In any event 170m Lei represent approx 0.002% of the 2006 GOM Budget – it is insignificant. Unfortunately this was the only data on “in kind” assistance that could be identified.

Territorial Treasuries issue daily statements (covering both expenditures and revenues) to individual institutions – to enable them to update their accounting records. There is a Public Institutions Accounting Software Package available, but the extent of use by institutions is not known. Many institutions use self-developed accounting records or keep manual records. However the primary school and primary health clinics are reliant on the Local Mayor's office for accounting services. It was not feasible, therefore, to verify the communication of accounting data to the individual institutions. The allocation of schools' budget to individual schools is formula driven (based on pupil numbers), although the calculation will be different in each Rayon area. In theory, therefore, should be no difficulty in a Head Teacher being able to verify that the school has received their correct allocation. It is evident from a World Bank Public Expenditure Tracking Survey that there are many difficulties in ensuring that education resources are maintained at a realistic level and individual schools receive adequate resources. These difficulties are outside the scope of the PI.

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

The tracking survey focused on primary schools. This indicated that the capacity to identify the resources allocated to primary schools and utilised by them is in place and so a Score B has been allocated.

FMIS, when introduced, will offer primary units a far better information service, should reduce the administrative burden and enable heads to ensure that they receive their fair share.

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score B (i). Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).

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

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

The ST's systems produce accurate reports comparing actual expenditures/revenues with approved budgets. Statements are not normally distributed by the ST to individual Institutions. Additionally, the systems generally are, by modern standards, inflexible. These are weaknesses that perhaps led to the CFAA (2004) indicating that "budget execution reporting is an area that needs improvement". Territorial Treasuries supply their institutions with daily statements of transactions processed (expenditures and revenues) so that institutions can update their own accounting records. They also provide a monthly statement to each institution – which is then in a position to reconcile the figures with its own records. Arrangements are good, and although implementation could not be verified, it is considered that reliance can be placed on the data held in the Treasury Systems.

These systems do not, however, have any capacity to hold financial commitments data, although they do hold details of all contracts entered into. We are also informed that individual institutions do maintain details of the commitments they have entered into. Another specific weakness is that the ST is not responsible for the production of all budget execution reports. It does not cover the SSF and the CIBMA – the quality of the systems operating in these bodies has not been examined. Finally given that financial commitment data are not captured in the Treasury Systems a score of C has been allocated.

The new FMIS software is to become operational in January 2009, and this will address the weaknesses inherent in the current Treasury software. In particular it will enable commitment accounting to be introduced – if this is desired by the GOM.

(ii) Timeliness of the issue of reports

The ST produces monthly and quarterly reports, normally within 4 weeks of the end of the financial period. Local institutions are responsible for maintaining their own financial records and many use accounting software packages to do so, although many still rely upon manual records. The data received from the Territorial Treasuries should ensure that those records are reconciled with the CT. Institutions can, therefore, produce there own reports.

Score A

FMIS will bring a significant improvement in the ability to produce timely reports. Depending upon the communication arrangements that can be put in place, there is also the possibility of online access for many budget managers.

(iii) Quality of information

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

Score A

FMIS again will bring many advantages in terms of validating the quality of the data entered.

The introduction of commitment accounting would represent a significant complication in financial processes and may, therefore, be of doubtful benefit to the GOM. The requirement to include commitments in the scoring methodology means that a lower score is given than may be warranted given overall quality and timeliness.

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

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

An annual budget execution statement is produced which covers adequately the execution position. Separate budget execution statements are also produced for CIBMA and the SSIB. However, the execution statements are not the same as annual financial statements as no detail of financial assets/liabilities, nor information on fiscal risk or contingent liabilities is prepared, and no financial information/analysis statements accompany the budget execution report. Neither are there any statements which analyse or review the effectiveness of the public expenditure incurred.

It is clear that certain information on financial asset/liabilities is available and could be included in the budget execution report. The GOM should consider inclusion of such information at the end of 2006. Given the specific scoring requirement for a consolidated approach, a score of D has been allocated.

The GOM should be in a position to produce consolidated financial statements, meaningful balance sheets and statements which address effectiveness and efficiency when the proposed FMIS becomes operational.

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

The report of the COA submitted to Parliament in June is merely a summary of the government activities and not a financial audit. Given this factor and that the budget execution report cannot be regarded as consolidated a score D, which matches the first criteria has to be allocated.

(iii). Accounting Standards Used.

The financial statements produced by the GOM all appear to satisfy international standards. In budget execution terms it should be noted that budget preparation and execution are recorded on a cash basis by the ST, whereas institutions record their expenditures on a simplified accrual basis. However, the government does not specifically disclose its accounting policies and in the light of this a default score of D has been allocated

Score D

Consolidated Financial Statements are not submitted, only budget execution statements – though these are regarded as comprehensive and accurate. Given existing financial systems it is difficult for the GOM to achieve higher standards in this area. Compliance with IPSAS is one of the stated aims of the FMIS development.

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	Score D (i). A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit. Score D. (ii). If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year. Score D (iii). IPSAS or corresponding national standards are applied. Score D

3.6. External scrutiny and audit

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

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

The mandate of the Court of Accounts (COA) is wide ranging. It is free to audit any public body or institution including extra-budgetary funds. The DFID FRA notes that “since 2001 there is no legal obligation to audit SOEs” which is not in accordance with INTOSAI Guidelines or Audit Precepts.

According to data provided by COA, 57.5% control coverage of total expenditures of central government entities was achieved in 2004 and 100% of revenues.[20]

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

Control Coverage of the Court of Accounts 2004

	Total	Amount of control coverage (million lei)	Percentage
Revenues			
Consolidated budget (state + territorial-admin)	7480.8	7480.8	100%
State Social Insurance	2734.4	2734.4	100%
Health Insurance (9 months of 2004)	727.8	727.8	100%
Total	10943.0	10943.0	100%
Expenditures			
State budget	4255.1	2768.6	65.0%
Territorial-admin budget	2788.6	1532.5	55.0%
State Social Insurance	2327.7	1186.2	54.6%
Health Insurance	674.3	287.5	42.6%
Total	10045.7	5774.8	57.5%

Source: Court of Accounts.

According to previous diagnostic studies, audits predominantly comprise transactions level testing and detail lapses in individual transactions. In common with other former Soviet Union countries, the current emphasis is on control rather than audit. Generally the COA appears to be conducting this compliance function effectively. Previous diagnostics also noted weaknesses in audit methodology although the COA has introduced a number of internal manuals and guidelines, particularly since the World Bank's CFAA was published. Modern audit concepts have been introduced into amendments to the Law in 2005. Given the current scope and nature of external audit a score of C is appropriate for this dimension of the indicator.

(ii) Timeliness of submission of audit reports to legislature

COA reports are finalized after consultation with officials of the audited entity at formal session of the Court. All the Members of the COA, together with officials of the audited entity and other interested parties are present at the hearing. According to the Court, the sessions are not publicized but are open to the public and mass media. In practice individual hearings tend not to be noticed external to the institutions involved. Although the full texts of the reports of the COA are not made public, decrees based on the reports are published in the Official Monitor within ten days of the coming into force or, in the case of appeals after the final ruling of the COA. According to COA, decisions of the Court are reached promptly on completion of field work although there was some backlog in 2005 due to changes in the membership of the Court.

According to the Law[21], the Court of Accounts Chairman presents its annual report on the management of the state budget to Parliament before July 15 during a special meeting of Parliament. This report is subsequently published in the Official Monitor. In addition, the Law provides that the COA presents copies of reports to Parliamentary committees based on their relevance to the committee's work.[22] Additional control activities can be required by individual parliamentary factions, without a decree of Parliament but these are limited to one activity per quarter[23]. Previous diagnostics have pointed out that the requirement of the COA to act in accordance with this requirement reduces its independence and adds a significant level of unpredictability to its work. Recent changes in the Law have sought to reduce the

[21] Art. 3
[22] Art. 6 (2). In the meeting of with the Chairman of the Economics and Finance Committee it was confirmed that Parliament may or may not discuss the COA reports.
[23] Art. 11 (4)

volume of this type of ad-hoc assignment while retaining the influence of parliamentary factions.

As the COA submits its annual report to Parliament by July 15 a score of B is appropriate for this dimension.

(iii) Evidence of follow up on audit recommendations

COA reports are finalised after consultation with the institution being audited in a public session in the offices of the COA, at which all the Members of the COA and the institution are present. Previous diagnostics have referred to the excessive enforcement powers of COA. Art 27 (10) of the Law provides that “the decisions of the Court of Accounts are official and mandatory for all public administration authorities”.

Score A

The implementation of the EU/Government of Moldova Action Plan provides an incentive to reform. The newly appointed Chairperson and Management Team also appear focussed on developing COA into an organization which conforms to international best practice.

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	Score C+ (i). Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. Score C (ii). Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). Score B (iii). There is clear evidence of effective and timely follow up Score A

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

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

Score B

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

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

Score B

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

The Government submits the Draft Budget Law to Parliament by October 1. The State Budget is approved by Parliament by December 5 after three readings and is generally adhered to.

Score A

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

The Budget System provides clear and transparent rules for in-year amendments to the budget by the executive but does not set limits. Amendments within the overall budget ceiling of a budget entity require the agreement of the line ministry and MOF. Expansion of the overall budget expenditure has to be agreed through Government and Parliament.

Score B

Existing procedures are well defined and respected.

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

PI-28: Legislative scrutiny of external audit report

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

According to the Law, the Chairman of the COA presents a summary report on the management of the State Budget to Parliament by July 15 during a special meeting of Parliament. The Law also requires the COA to present the results of ad-hoc audits requested by factions within Parliament within 60 days of the request being received. Other than that the results of the Court's control activities do not tend to be discussed in Parliament or its committees. A default score of D has been applied to this dimension due to the type of system in place and the PEFA scoring method.

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

Hearings within the legislature are generally limited to the special meeting held to discuss the work of the Court in the previous budget period. According the COA, the Chairman attended Parliament "five or six times" in 2004.

Score C

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

There is a need for the GOM to clarify the role and authority of Parliament in the review and approval of annual audit report of the COA. There is no information from current sources on any formal response to audit findings.

Score D

In the present system, the relative lack of parliamentary involvement has the effect of reducing the openness of the accountability process.

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

3.7. Donor practices

D-1 Predictability of Direct Budget Support

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

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

Moldova has received some budget support in the past three years but the lack of an agreement with the IMF which has been a precondition for the main suppliers of budget support (World Bank, EC[24], and SIDA) has limited the amount. For DFID a perceived fiduciary risk was of greater concern.

Moldova received grants in form of budget support starting from Year 2002 (EC Food Security Programme (FSP) 2000 grant of €5 million), in 2004 two donors (SIDA and DFID) provided €1 million budget support for the implementation of the population census. In financial year 2005 the EC released the FSP 2002 grant (€9.5 million) and FSP 2004 grant (€8.8 million). DFID also provided €261,000 through the state budget for supporting the statistics works, in financial Year 2005.

FSP provided foreign exchange for the import of eligible food products and the local currency has been allocated to the budget. The most recent FSP grant was a three tranche operation tied to trigger points to be achieved linked to social protection, the agriculture and rural sector and improvements in budget classification and accounting. While conditionality was also linked to the IMF programme, this was waived as €1.2 million was disbursed in the first tranche and €7.6 million in the second (out of a total FSP €9.2 million), leaving €400,000 undisbursed due to a failure to fulfil one of the social protection targets fully. Indeed the release of the second tranche was sooner that expected by the GOM and was allocated to an earlier financial year than had been planned.

While it is not possible to score this indicator because of the general lack of budget support, the nature of existing conditionality for budget support makes predictability problematic.

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

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

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

The HAD of MOE collects information from donors on projects with a request to supply the following for an end of year report on donor assistance:

1. Project title
2. Project office
3. Contact person (Name, Tel/Fax, e-mail)
4. Donor
5. Beneficiary (Name, address, contact person)
6. Partner institution (Name, address, contact person) in case of relevance
7. Total project budget
8. Implementation period (month, year)
9. Extension period (month, year) if relevant
10. Project objectives

[24] €20 million EC Budget Support for 2003/04 was shelved due to Moldova being off-track with the IMF.

11. Other information regarding the project (terms of reference, project memorandum, implementation plan) must be annexed.

This does not request any disbursements nor do the donors supply such information routinely. Some donors are unwilling to prove any financial information beyond the total budget for the lifetime of the project, although SIDA's support to Labour Market and Vocational Training provided funds for an information system in its project that linked financial disbursement to the State Budget.

Accounting for technical assistance payments to consultants based off-shore who supply services to GOM is minimal. Loan financed projects that are supported by a co-financing grant are normally implemented through a Project Implementation Unit and these are generally linked to the budget with disbursement and forecasts disbursements supplied on a quarterly basis. Most of these are funded by the World Bank who has a web based information systems for its clients on disbursements.

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	Score D (i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior to its start. (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

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

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

While there may be a move to use national procedures once the FMIS is in place, it is unusual to find any donor using the procedures currently for procurement, accounting and audit reasons. DFID and SIDA supported the General Population Census by transferring money to the National Bureau Statistics account in conjunction with some EC FSP funds for the project. CRU was used to audit the project. However, this was exceptional. DFID supported statistical works in 2005 and FSP provided grant through the budget in 2002 and 2005.

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

4: Government reform process

4.1. Recent and on-going reform measures

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

In his speech to Parliament on the 8th of April 2005 the President of Moldova stressed that the existing governmental structure is not capable of adjusting to the quickly changing targets and priorities of the country. During the last fifteen years the number of civil servants increased nine-fold and a class of conservative, low qualified bureaucrats with vast regulatory powers appeared. The link between the business community and the government was lost. Therefore, before modernizing the whole country it is important to modernize the executive.

A key priority for the Government, therefore, is the establishment of a modern and efficient system of public administration consistent with European Union principles of good-governance. The first stage of this reform, during April and May of 2005, has changed the central executive body from 16 ministries and 14 departments to 15 ministries and 13 agencies and national offices. The second stage of the reform is concerned with functional analysis examining the operational analysis of the central public administration authorities. This stage envisages a gradual cut of the government's size by 70% to allow a better structure in each ministry, the raising of civil service salaries, the employment of highly qualified experts and as a result the raising of work standards and the elimination of corruption.

A Public Administration Reform Unit (PAR) has been established which reports to the Prime Minister and the PAR Commission and is led by the PAR Advisor to the Prime Minister. A team of national and international consultants is providing assistance to the PAR Unit in the ministerial functional analysis. This work will define:

1. the structure of the central executive body, including the process by which policies are prepared, decided upon, implemented, and monitored and evaluated;
2. the tasks of ministries and other central administrative authorities, and their staffing levels, including the relationship between central agencies and other agencies of government, including local government;
3. civil service reforms, including training and career development, financial and non-financial incentive systems, recruitment and selection, performance appraisal; and
4. changes in the legal and regulatory framework required to execute the reform strategy.

The Strategy is consistent with major policy statements such as the Action Plan Moldova – European Union and the Economic Growth and Poverty Reduction Strategy Paper.

The State Commission for Business Regulation has been established to streamline the legislative and institutional framework for business regulation, and monitor the performance of relevant public authorities. The Commission started to implement via its Working Group and Secretariat the Regulatory Guillotine process in February 2005 to review and eliminate redundant regulations in a timely and cost effective manner.

All government agencies were instructed to establish lists of their regulations and unnecessary, outdated, and illegal rules were identified, and excluded from the list (achieved March 22, 2005). A centralized list was created (involving consultation with the private sector) by aggregating all the ministries' lists together (achieved June 22, 2005). Any regulation not on the list was automatically cancelled without further legal action. During the first two stages of the guillotine reform, more than 1135 acts (plus 11 laws) were reviewed. 426 regulations were recommended to be included in the Register, 99 regulations suggested to be cancelled by Government of Moldova with an additional 8 recommended for cancellation by independent public authorities, and 285 regulations to be amended within 3 months or failing that to be cancelled on Jan.1st 2006. Three hundred and eighteen regulations were determined to be outside the remit of the guillotine law or have been modified or cancelled by public authorities following the recommendations of the National Working Group at the end of July 2005. The list then became the comprehensive Registry of all regulations recognized in law and was discussed with the business community for further modification. The final Register was submitted to government and approved on Oct. 7, 2005.

All subsequent regulations and changes have to be entered in the registry within one day of adoption and/or publication. The registry has legal security – regulations not in the registry cannot be enforced against a business. Work continues be carried out to refine and modernize the regulatory environment including Regulatory Impact Assessments in the context of the EGPRSP and the EU Action Plan.

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

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

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

This project is to be implemented over the period from launch to 2009.

For a number of years, the Court of Accounts (COA) has benefited from technical assistance provided by the SIDA which ended by the start of 2006. Much remains to be done to strengthen the COA and DFID is providing TA to develop a Strategic Development Plan (SDP) for the COA for the next three years. The SDP would provide a framework for reform, enable the COA clearly to communicate its goals and objectives, and enable the donor community to identify the areas of proposed COA reform which they would feel most able to support. This support would be provided through a multi donor Trust Fund managed by the World Bank which is due to be established in late 2006.

4.2. Institutional factors supporting reform planning and implementation

The above reform programme is lead by the Government of Moldova with strong leadership from the Prime Minister and the Deputy Prime Minister. The Ministry of Finance is fully in control of the budget reform process including the new PFM project. The donor community is supporting this reform process through the provision of technical assistance and funding for key equipment and training.

Annex 1: Summary and Explanation of Indicator Scores

	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	In 2002 actual primary expenditure was 4.4% above budget and this fell to 2.8% in 2003 before increasing to 5.4% in 2004.
PI-2. Composition of expenditure out-turn compared to original approved budget	C	Variance in expenditure composition exceeded overall deviation in primary expenditure by 6.4% in 2002, and fell to 3.0% in 2003 before increasing to 5.1% in 2004.
PI-3. Aggregate revenue out-turn compared to original approved budget.	A	Actual domestic revenue collection was in excess of forecasts in each year from 2002 to 2004 ranging from 0.3% to 18.3% reflecting improving economic growth and tax administration.
PI-4. Stock and monitoring of expenditure payment arrears.	D+	While the share of arrears as a percentage of total expenditure is declining annually from 13.5% in 2002 to 9.2% in 2004 and further to 5.6% in 2005, debts are not recorded by age.
PI-5. Classification of the budget	C	The budget classification is based on GFS 1986 and is to be converted to GFS 2001 when the FMIS is implemented. There are deviations from GFS 1986 with respect to the functional classification.
PI-6. Comprehensiveness of information included in budget documentation.	A	Budget documentation is comprehensive and meets 8 out of the 9 elements for good budget information.
PI-7. Extent of unreported government operations	B+	The level of EBE was in the region of 10% of total government spending in the 2002 -2004 period. This is included in the budget in annexes and is approved by Parliament so are not unreported. The majority of Donor funding, particularly credits, appears to be included in the budget and in the MTEF.
PI-8. Transparency of Inter-Governmental Fiscal Relations	A	The legal basis for inter government transfers is set out in the appropriate laws and transfers are formulae driven and applied in practice. Information is timely for budgeting.
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C	While there is a data base on SOEs and JSC which is used for financial analysis, external audit is not performed for all public sector entities and the first report on fiscal risk has been performed for the first 9 months of 2005. Financial risk reporting on SN government's position is absent though budgets are approved and monitored.
PI-10. Public Access to key fiscal information	A	Public access to information is good through statutory reports and use of web sites. Some information is only made available if requested, but nevertheless is available. All 6 elements of the indicator are met.
PI-11. Orderliness and participation in the annual budget process	B+	There is a clear and well understood budget calendar but some delays have been experienced with respect to publishing the MTEF. The participants and their tasks in the budget process are identified.

PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	The MTEF is based on a 3 year rolling forecast of the resource envelop which determines the fiscal framework for the annual budget. Resource allocation is based on the development of sector strategies which are MOF driven. The bottom up element of the MTEF is being developed.
PI-13 Transparency of Taxpayer Obligations and Liabilities	A	Tax legislation is available from the two tax departments' websites and regular tax payer education is carried out. Appeals mechanisms exist and are implemented.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B+	Each taxpayer is assigned a TIN which is used as an identification and compliance vehicle. Tax penalties are established in the tax laws and are set at deterrence levels. Audits are based on traditional practices of inspections rather than modern audit techniques.
PI-15 Effectiveness in collection of tax payments	B+	Age profile of arrears is not kept but arrears may be mainly sourced from penalties and fines, particularly Customs arrears. Revenues are paid into the ST bank account and reconciliation is timely.
PI-16. Predictability in the availability of funds for commitment of expenditures	A	Cash flows allocation is done monthly, based on expenditure need and revenue forecasts. Cash limits are rigidly applied. Forecasting has improved and the current level of predictability is high removing the need for in-year adjustments.
PI-17 Recording and management of cash balances, debt and guarantees.	B	The State Treasury manages the cash flow for the State Budget (includes transfers to other agencies only) and cash balances are recorded daily. Debt is recorded and reconciled timely. Existing weakness in legislation on guarantees and contingent liabilities is being addressed in a new Law on Public Debt, State Guarantees and On-lending by State.
PI-18. Effectiveness of payroll controls	D+	Basic rather than comprehensive payroll files are maintained and major LMs use computer payroll software. There are no centralised personnel or payroll facilities and staffing functions are completely decentralised. The procedures rely heavily upon the integrity of the head of the institution and the individuals responsible for human resources and payroll. The visits of the CRS provide a level of audit. The arrangements that exist appear to be sound and secure, and are fairly well implemented in the limited areas examined.
PI-19 Competition, value of money and controls in procurement.	B	Data from PA shows that 90% of contracts by value and 92% by number of contracts were procured through competitive open bidding or shopping procedures which is a big improvement from previous years. The main reason is a change in the Law which requires tender documents to be registered with the PA. The legal provisions for complaints are, in general, clear and provide for oversight by the PA. There is a more general concern regarding conflicts of interest in the PA role in procuring material resources for the Government. While there has been some progress in the procurement function, PEFA Team concludes that the overall score for procurement presents an overly favourable picture of

		its present state of development. The information gathered from interviews pointed to a general lack of awareness of key changes to procurement regulations.
PI-20. Effectiveness of internal controls for non-salary expenditure	C+	A rigid control system in respect of expenditures, in particular the monthly cash limits and the cumbersome manual processes for seeking approval to changes, is in place. Comprehensive internal controls/rules are relevant in the absence of an efficient FMIS. The CRS inspects once every two years. Visits are focused in ensuring compliance with the Law, and the majority of internal controls/rules are set out in legislation. Where the CRS staff identifies serious malpractice, they will inform the appropriate authorities.
PI-21. Effectiveness of Internal Audit	C+	A number of small internal audit units have been established, all of which are at an early stage of development. There is a limited amount of systems and ex-ante assessment work on the control framework which is an essential role of a modern internal audit function. The CRS performs ex-post verifications and compliance reviews of the execution of the budget.
PI-22 Timeliness and regularity of accounts reconciliation	B	All Treasury transactions are executed at the single bank account for each budget which allows for reconciliation with bank records. Regular crosschecks of internal procedures are undertaken within the ST. Data reconciliation is specifically included in the Annual Reports on Budget Execution to Parliament. The ST manages the unidentified revenues suspense account and gave an assurance that all amounts are cleared within 3 days of receipt. The PEFA Team had difficulty obtaining direct evidence of the extent of other suspense accounts, although eleven were identified. There is a requirement that these accounts are reconciled annually at 31 December. However, there is no certainty that all suspense accounts have been identified. There are well documented procedures for advance payments.
PI-23. Availability of information on resources received by service delivery units	B	Information is readily available from both central and local levels. Primary units are reliant on the local mayor's office for accounting services.
PI-24. Quality and Timeliness of in-year budget execution reports	C+	The ST's systems produce accurate reports comparing actual expenditures/revenues with approved budgets. These systems do not have any capacity to hold financial commitments data, although they do hold details of all contracts entered into. The ST produces monthly and quarterly reports, normally within 4 weeks of the end of the financial period. Local institutions are responsible for maintaining their own financial records.
PI-25. Quality and timeliness of annual financial statements.	D	An annual budget execution statement is produced which covers adequately the execution position. These are not the same as annual financial statements as no details of financial assets/liabilities, nor information on fiscal risk or contingent liabilities is prepared, and no financial information/analysis statements accompany the budget execution report. The report of the COA

		submitted to Parliament is merely a summary of the government activities and not a financial audit. The financial statements produced by the GOM all appear to satisfy international standards.
PI-26. Scope, nature and follow-up of external audit.	C+	The mandate of the COA is wide ranging - it is free to audit any public body. COA data indicates 57.5% audit coverage of total expenditures in 2004 and 100% of revenues with emphasis is on control, prosecution and enforcement rather than audit. Generally the COA appears to be conducting this compliance function effectively. COA reports are finalized after consultation with officials of the audited entity at formal session of the Court.
PI-27. Legislative scrutiny of the annual budget law.	B+	Budget forecasts and underlying macroeconomic assumptions are presented to Parliament, whose Economic and Finance Committee has primary responsibility for budget submissions. The Government submits the Draft Budget Law to Parliament by October 1 and it is approved by Parliament by December 5 after three readings.
PI-28. Legislative scrutiny of external audit report	D+	The COA Chairman presents a summary report on the management of the State Budget to Parliament and COA is also required to present the results of ad-hoc audits requested by factions within Parliament, but there is general lack parliamentary involvement in the work of the COA. The results of the Court's control activities do not tend to be discussed in Parliament or its committees.
D-1 Predictability of Direct Budget Support	No Score	There has not been any direct budget support as the GOM is off-track with the IMF. The requirement for an IMF programme and adherence to conditionality makes such predictability an issue.
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D	The Humanitarian Aid Department of MOE collects project information from donors, but not on disbursements nor do the donors supply such information routinely. Some donors are unwilling to prove any financial information beyond the total budget for the lifetime of the project. Accounting for technical assistance payments to consultants based off-shore is minimal. Loan financed projects that are supported by a co-financing grant are generally linked to the budget with disbursement and forecasts disbursements supplied on a quarterly basis. Most of these are funded by the World Bank who has a web based information systems for its clients on disbursements.
D-3 Proportion of aid that is managed by use of national procedures	D	While there may be a move to use national procedures once the FMIS is in place, it is unusual to find any donor using the procedures currently for procurement, accounting and audit reasons.

Annex 2: Meetings

Time of the meetings	Date of meetings and authorities contacted	External Experts involved	Local Experts involved
	Sunday, 9 October 2005		
	Arrival to Chisinau	JS, AM, DS	
	Monday, 10 October 2005		
09:00 – 10:00	• Office briefing with local consultants	JS, AM, DS	AB, TS
10:00 – 11:00	• Meeting with representatives of key donors in PEFA exercise (Sida, Food Security Program, UNDP, World Bank)	JS, AM, DS	AB, TS
11:00 – 12:00	• Meeting with the representatives of the Ministry of Finance	JS, AM, DS	AB, TS
12:00 – 13:00	Lunch		
13:00 – 15:30	• Mr. Vasile Bulicanu – Head of Budget Synthesis Directorate Ministry of Finance	JS, AM, DS	AB, TS
15:30 -	• Mme Lilia Razlog, Head of Public Debt Directorate Ministry of Finance	AM, DS	AB, TS
15:30 – 17:00	• Mr. Iaroslav Baclajanschi local consultant – MTEF Project	JS	
	Tuesday, 11 October 2005		
09:00 – 10:00	• Mme. Elena Nikulina, World Bank	JS, AM, DS	AB, TS
10:30 – 12:00	• Mme. Nina Lupan – Head of Central Treasury, • Mr. Mihail Raducan – Deputy Head of Central Treasury, Ministry of Finance	JS, AM, DS	AB, TS
12:00 – 13:00	Lunch		
13:30 – 14:30	• Mr. Sergiu Burduja, Head of Financial Control and Revision,	AM	AB
15:00 – 16:00	• Mme. Tamara Shumscaia, State National Insurance House (of.329)	JS	TS
	Wednesday, 12 October 2005		
09:00 – 10:00	• Mr. Rusu, Mandatory Health Insurance Fund	JS, AM, DS	AB, TS
10:30 – 11:30	• Mr. Hans Lundquist, SIDA	JS, AM, DS	AB, TS
12:00 – 13:00	Lunch		
13:00 – 15:00	• Mme. Nina Lupan – Head of Central Treasury, • Mr. Mihail Raducan – Deputy Head of Central Treasury, Ministry of Finance	DS	TS
14:00 – 15:00	• Mm. Alla Popescu and Mr. Gheorghe Cojocari, Court of Audit	AM	AB

Time of the meetings	Date of meetings and authorities contacted	External Experts involved	Local Experts involved
	Thursday, 13 October 2005		
10:00 – 10:40	• Mme Maia Sandu, Ministry of Economy (head of MTEF team)	JS	
11:00 – 12:00	• Ministry of Agriculture	JS, AM, DS	AB. TS
14:00 – 15:00	• Mr. Ivanov Vice-President, Industry, Budget and Finance Committee - Parliament	JS, AM, DS	AB
15:00 – 17:00	• Mme. Nina Lupan – Head of Central Treasury, • Mr. Mihail Raducan – Deputy Head of Central Treasury, Ministry of Finance	DS	TS
17:00 – 18:00	• V. Shokin, Procurement specialist of CAPMU, implementing unit for WB financed projects	JS	AB
	Friday, 14 October 2005		
09:00 – 10:00	• Mm. Alla Popescu and Mr. Gheorghe Cojocari, Court of Audit	AM	AB
09:00 – 10:00	• Mr. Pushcuta, Head of Tax Inspectorate	JS	TS
12:30 – 14:30	• IMF: Anita Agelovska, Milan Cuk, Evind Tandberg (restaurant “Symposium”)	JS, AM, DS	AM,TS
15:00 – 16:00	• Mr. Turcanu, Public Procurement Agency (str.Columna, 118)	JS, AM, DS	AM,TS
	Saturday 15 October		
11:00 – 18:00	• Review Meeting	JS, AM, DS	AM
	Monday, 17 October 2005		
13:00 – 14:00	• Ministry of Economy – Mr Onu	JS	
17.15- 18.15	• USAID	JS	
	Tuesday, 18 October 2005		
09:00 – 11:00	• Meeting with representatives of key donors in PEFA exercise (Sida, Food Security Program, World Bank)	JS	AB, TS
13:30 – 14:00	• Mr. Mihai Pop, Minister of Finance	JS	AB, TS
14:00 – 15:00	• Mr. Barbarosie, Customs Department	JS	AB, TS

Time of the meetings	Date of meetings and authorities contacted	External Experts involved	Local Experts involved
	Sunday, 15 January 2006		
	Arrival to Chisinau		
	Monday, 16 January 2006		
09:00 – 12:00	• Internal meeting	JS, AM, DS	
14:00 – 16:00	• Mr. Vitalii Slipenkii, Customs Department	JS	TS
16:00 – 17:00	• Meeting with local experts	JS, AM, DS	AB, TS
	Tuesday, 17 January 2006		
08:30 – 09:30	• Ministry of Finance: Bulicanu, Prujanskii, Rotari, Lupan, Anghel, Purici	JS, AM, DS	AB, TS
09:30 – 12:00	• Separate meetings: budget specialists and treasury specialists		
14:00 – 15:30	• Donors meeting: Philippe Bertrand and Liudmila Caziuc (EC FSP), Hans Lundquist (Sida), Alla Skvortsova (DfID), Mike Peleah (UNDP)	JS, AM, DS	AB, TS
16:00 – 17:00	• Treasury specialists	DS	TS
	Wednesday, 18 January 2006		
08:30 – 09:30	• Mr. Burduja, Control and revision Unit	AM	AB
10:00 – 11:00	• Mm. Lilia Razlog	DS	TS, AB
11:00 – 12:00	• Mr. Mihail Pop, Minister of Finance	JS, AM, DS	AB, TS
14:00 – 15:00	• Mm. Lupan, Treasury	DS	TS
15:00 – 16:00	• Mm. Foca, Court Accounts	AM	AB
	Thursday, 19 January 2006		
09:00 – 10:00	• Mr. Ivancov, Anticorruption department	JS, AM, DS	AB, TS
15:00 – 16:00	• Mr. Axenti + representative from Humanitarian aid division, Procurement department	AM, DS	AB
	Friday, 20 January 2006		
09:30 – 12:30	• Launching of the PFM project, WB	JS	
14:30 – 15:00	• Mm. Lilia Palii, Ministry of Economy (of. 314)	DS	
15:00 – 16:00	• Mm. Bogatu, Ministry of Education (of.460)	DS	
	Saturday, 21 January 2006		

Time of the meetings	Date of meetings and authorities contacted	External Experts involved	Local Experts involved
	• Experts meeting: consolidation of the report	JS, DS, AM	
	Monday, 23 January 2006		
	• Mm.Lilia Razlog, Head of Public Debt Division	JS	
16:00 – 17:00	• Mr. Hans Lundquist, SIDA	JS	AB
	Tuesday, 24 January 2006		
09:30 – 10:15	• Mm. Alla Skvortsova, DfID	JS	AB
10:30 – 11:00	• Mr. Bulicanu, Mm. Rotari, Mm. Prujanskii – preliminary conclusions	JS	AB
14:00 – 14:45	• Mm. Elena Nikulina, World Bank	JS	AB
15:00 – 16:00	• Mr. Johan Mathisen, IMF	JS	AB
16:00 – 16:20	• Mr. Philippe Bertrand, EC FSP	JS	
	Wednesday, 25 January 2006		
	Departure from Kishinev		

Annex 3: Documents Consulted

DFID Managing Fiduciary Risk when providing Poverty Reduction Budget Support DFID 22 September 2004
DFID Fiduciary Risk Assessment Moldova report by Atos Consulting
EU Moldova Action Plan
Government of Moldova Economic Growth and Poverty Reduction Strategy Paper (2004-2006), May 2004
Government of Moldova Annual Evaluation Report on Implementation of The Economic Growth and Poverty Reduction Strategy Paper – 2005
Government of Moldova Medium Term Expenditure Framework (various years)
Government of Moldova Social Trends
Government of Moldova State Budget Law (various)
Government of Moldova Various Laws
    Budget Systems Law
    Customs Code
    Law on Customs Tariff
    Tax Code
    Law on System of Social Insurance
    Law on Local Public Finance
    Law Amending Local Administration
    Law on Government of Republic of Moldova
    Law on Procurement
IMCL Inception Report and Progress Report Technical Assistance for the Integrated Financial Management Information System Concept Public Finance Management Project
PEFA Public Financial Management Performance Measurement Framework June 2005
UNDP Human Development Report, 2005
World Bank Country Financial Accountability Assessment (CFAA) Moldova, 12 Sept 2003.
World Bank Country Procurement Assessment Report (CPAR) Moldova June 30 2003.
World Bank Public Finance Management Project