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# PPF

## Project

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**Support the Moldovan  
Government in Identifying and  
Preparing Projects Linked to  
the Implementation of the  
Association Agreement**

January–December 2021

## Newsletter

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This project is implemented by



**DT Global**

**Assist**

# Transforming public investments in the Republic of Moldova

Following a review of the status of implementation of the current regulation on public investment, the PPF Project team submitted to the Ministry of Finance (MoF) in February 2021 a proposal for a revised procedure for the appraisal of public investments.

Public investment management in Moldova has been a fragmented process with projects financed from different sources and managed by different central government entities being subject to separate screening, appraisal and selection procedures.

The main driver behind the PPF Project team's proposal was to establish a workable 'national public investment project appraisal' procedure that will be applicable to all investments, from all of general government, regardless of the source of financing.

The rationale behind the proposal for a revised (new) procedure for the appraisal of public investment projects and some key points are as follows:

» The investment project appraisal procedure will be separated from the budgeting process. The investment appraisal procedure is only about scrutinising investment project proposals and determining whether a project is eligible for funding or not. It is a continuous process where appraisal happens at regular intervals throughout the year not bound by the budget formulation timelines.

» The investment projects eligible for selection and funding will be fed into the MTBF and Budget formulation process – this should save time and minimise superfluous workload from having a parallel process.

» The submission of investment project proposals will be based on a simple, one-step procedure i.e., only complete project proposals are submitted to the MoF.

» The identification phase is the sole responsibility of the initiating public authority, which has full operational discretion as long as it observes the general rules laid out in the regulation. The same applies to the implementation, monitoring and evaluation phases of an investment project cycle.

» The scrutinisation of investment project proposals will be 'internalised' in the MoF through a working group headed by the Directorate for Public Investment and consisting of all concerned MoF units.

» The investment appraisal procedure will be automated using the Register of Public Investment Projects (RPIP).

**The above proposal by the PPF project is also meant to assist the MoF in the completion of related structural benchmarks under the new IMF programme agreed in late 2020. Further, once a new procedure is in place, the Project team will support both the MoF and public authorities initiating investment project proposals in its implementation.**



## Public Investment Management in Moldova: reform priorities

Increasing the level of productive investments will be critical to the successful upgrade of the Moldovan economy's capital stock and the attainment of sustained growth and socio-economic development in the years to come. In order to achieve this goal, reforms are required in the area of Public Investment Management (PIM) in Moldova. These reforms should aim for improvements in three inter-related areas:

### ***Improving the linkages between strategic priorities, investment projects and available financing.***

This will ensure that Moldova's Public Investment Programme is derived from the strategic framework of the country and takes into explicit account the financing constraints.

### ***Strengthening the efficient design and conduct of investment policy.***

This will address the persistent and chronic overoptimistic budgeting and underexecution of investment budgets in Moldova.

### ***Extending the coverage of the regulatory framework for PIM and simplifying its content to make it operational and user-friendly.***

At present the coverage of the regulatory framework for PIM is very limited accounting for less than 20% of total public investment expenditures and the regulation setting out the screening, selection and monitoring of public capital investment projects in Moldova is overly complex.



# 7-year government bond: historical issue for the Republic of Moldova

On 21 April 2021, the Ministry of Finance (MoF) succeeded to issue for the first time a 7-year government bond in the domestic market for government securities. The MoF had received extensive support from the PPF Project over a number of weeks leading up to this event.

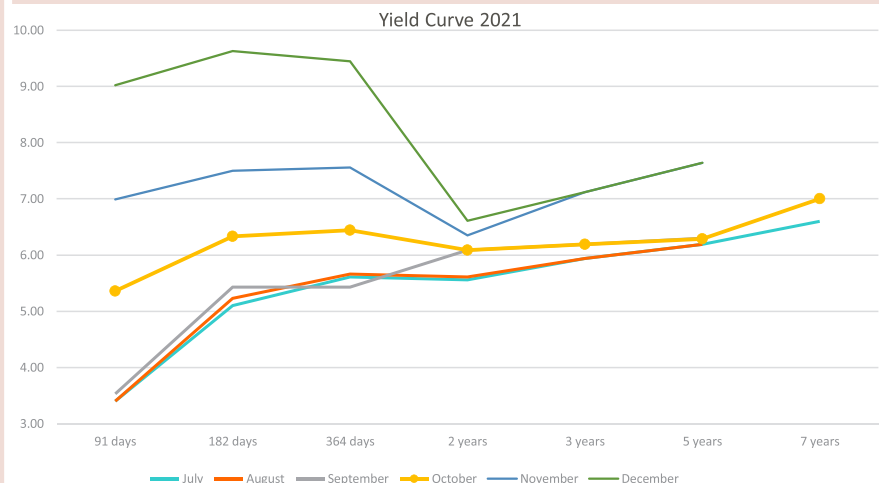
The success was significant and against the odds of the unfolding COVID-19 crisis and other difficulties, in particular the absence of a stable government administration. It also reflected the Ministry's commitment to continue developing the domestic market for government securities and extend the maturity profile of overall government debt denominated in MDL.

The success also marked the beginning of a renewed channel of communication between the MoF and the Primary Dealer banks of Moldova, geared towards the common goal of developing the Moldovan capital market.

The PPF Project team is proud to have assisted the MoF along the entire process, which is an essential element towards sustainable government financing as well as economic development. The PPF Project will continue to support the MoF in this critical area.



## Moldovan Government Securities Market



*Curves are constructed using auction yields and interpolation*

The graph above shows the Yield Curve for the Government Securities (GS) of Moldova.

A Yield Curve depicts the level of return (yield) for each GS maturity (i.e. the time-period at the end of which the GS will cease to exist and the principal is repaid with interest). The Yield Curve assesses the relative performance of the GS of a country.

The graph above shows the Yield Curve of the Moldovan GS per month for the last 6 months of 2021. At the present, the Government of Moldova through the Ministry of Finance, issues GS with maturities of 3 months,

6 months, 1 year (also known as Treasury Bills) and 2 years, 3 years, 5 years and 7 years (also known as Bonds).

As shown in the graph, there is a general increase of yields for all maturities in the last six months of 2021. This means that the cost of financing for the Government has been increasing. The situation has worsened in the last three months of 2021, with the larger yield increases observed in the short-term maturities (up to 2 years). This is largely due to the increase in the international energy prices and the acceleration of inflation.

# Training and workshop events

## **Capacity Building for the Moldovan central authorities and the Ministry of Finance within the PPF Project**

The PPF Project delivered online the first three cycles of the newly designed training course on Costing of Public Investment Projects in the period 30 March to 8 April 2021 and October 2021.

The course programme assisted Moldovan officials from central public authorities and the Ministry of Finance and public institutions to learn and use modern techniques and skills for costing public investments.

The participants confirmed the usefulness of the training and ex-

pressed interest in a follow-up costing techniques provided by the Moldovan regulatory framework.

The course is aimed at enhancing the ability to make informed decisions on the design and selection of realistic and viable public investments.

To this end, training will be offered by the PPF Project team at least once a year to participants from line ministries, municipalities, public entities, as well as the Ministry of Finance. More advanced or a sector specific training courses on costing will be designed and delivered upon request from project beneficiaries.



## **The PPF Project enhances capacities of the Ministry of Finance in Financial Analysis and Risk Assessment**

In order to build effective financial analysis and risk assessment skills within the Ministry of Finance, the PPF Project organised two cycles of online training, in June and September 2021, on the tools and methods for performing financial analysis and risk assessment. The course covered important topics related to the analysis and application of cash flow, performance metrics, capital structure, cost of capital, risk modeling, classification and mitigation, and more.

### **Workshop:**

Promoting public investment projects for growth and development in Moldova

On 16-17 November 2021, the Ministry of Finance (MoF) with the support of the PPF Project, delivered an on-line workshop to raise awareness of the newly formed line ministries about the management of the external assistance and the process of selecting and budgeting public investment projects.

The workshop discussed the top-down role of the MoF and the bottom-up role of line ministries in the appraisal and budgeting processes of public investment projects. It was highlighted that the identification and design of public investment projects is the responsibility of line ministries, with the MoF being responsible for determining the eligibility of projects based on the national appraisal criteria. The MoF is also responsible for the budgeting of public investment projects as part of the Medium-Term Budget Framework and the State Budget.

Another important topic discussed during the workshop was related to the management and coordination of external assistance. The workshop explained that the MoF, as the National Authority for External Assistance, is responsible for supervising and overseeing the dialogue and negotiations with development partners as well as for ensuring that external assistance projects proposals are in line with the relevant national processes and procedures.

Finally, the participants were informed about the PPF Project team's assistance to the MoF in improving the regulation governing public investment project planning and developing a web-based application aimed at simplifying the procedure of submission of projects for appraisal by line ministries to the MoF.

The PPF Project is also mandated to engage with and assist line ministries. Follow up meetings between the Project team and line ministries will be planned where officials can raise their specific needs and concerns to the team.

# Aid Management Platform



Total number of projects - **2,239** • Total disbursements, ml EUR - **3,474.22**

Total commitments, ml EUR - **5,196.25**

The Aid Management Platform (AMP) is a web-based application designed to streamline the management of foreign assistance projects and programmes. Once the relevant information (financials, contacts, organisations including government and development partners, documents, dates and events, comments, etc.) is entered into the system, it becomes available for use in reporting, messaging, and analysis. Also, AMP has the capability to make approved activities and information available for viewing by the general public.

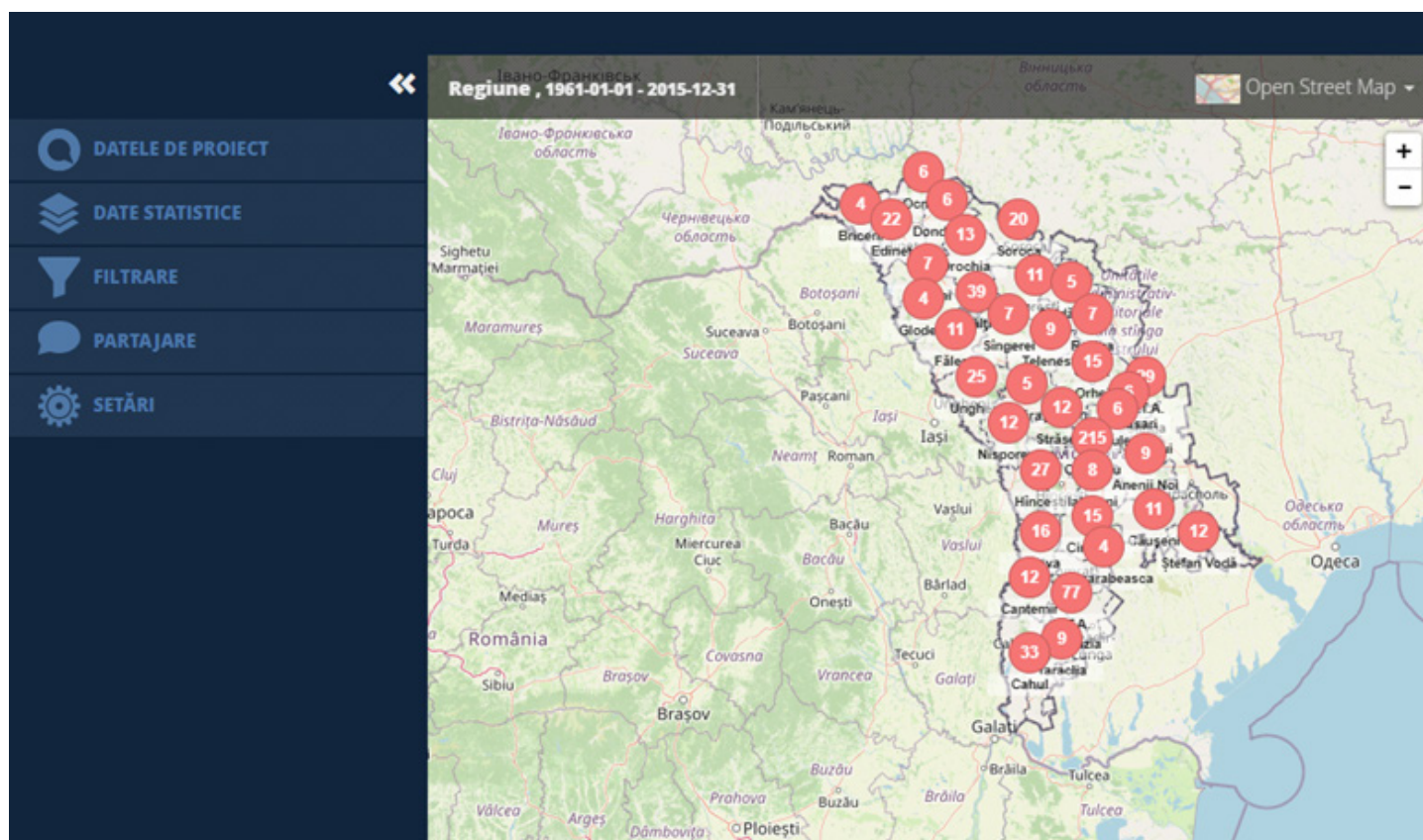
AMP was implemented for the Government of Moldova in 2013 by Development Gateway Inc., an international non-profit organisation initially founded by the World Bank with the support of UNDP. From 2014 to 2019, AMP was administered by the State Chancellery on behalf of the Government of Moldova and in 2019 AMP was handed over to the Ministry of Finance (MoF). Currently, AMP is administered by the External Assistance Department of the MoF.

Due to lack of maintenance and support during the last 8 years, the AMP database was overwhelmed with redundant records and extended to a very

large size, thus creating issues with performance, stability, data entry and reports generation. In order to address the shortcomings of AMP and also contribute to improving quality, accuracy and consistency of data on external assistance, the PPF Project performed an upgrade of the platform, with the kind assistance of Development Gateways Inc., to the latest available release and initiated the procedure of data cleansing and migration.

As a result of the upgrade, a considerable performance boost was achieved and the response time has substantially decreased compared to the previous AMP version. The upgraded AMP has enhanced security updates, which fixed vulnerabilities to attacks and unauthorized access to data, simplified Project fiche for data entry, fixed the mechanism for the automatic import of currency exchange rates, upgraded reporting module and the reports generation, revised classifiers, etc.

During the next steps the PPF Project plans to contribute to the roll-out of the upgraded AMP, update the technical documentation and organise user trainings and support.





# The EU-funded “Support the Moldovan Government in identifying and preparing projects linked to the implementation of the Association Agreement” - PPF Project (Project Preparation Facility)

## Main objective:

To strengthen the capacity of the Moldovan national authorities to plan, prepare and manage public investment projects, both domestically and externally financed. Particular attention is paid to capital projects that support the implementation of the EU-Moldova Association Agreement.

## Main beneficiary:

Ministry of Finance

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